Blue Water Bridge Canada

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BLUE WATER BRIDGE

Annual Report 2012 - 2013

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Blue Water Bridge Canada, a non-appropriated federal Crown corporation, owns and operates the Canadian side of the Blue Water Bridge, which extends across the St. Clair River between Point Edward/Sarnia, ON, CAN and Port Huron, MI, U.S.A. Operating since 1938 and twinned in 1997, the bridge is among the most preferred crossings for commercial and passenger vehicles travelling between Canada and the United States. The U.S. side of the bridge is owned and operated by the Michigan Department of Transportation.

Chairperson's Message

Changes, no matter how necessary, are rarely easy to implement. Last year, our board of directors identified the signs that changes were necessary for the long-term well-being of our organization. With input from employees and advice from an external business consultant, we determined the need to trim the size of our organizational structure, thus eliminating the duplication and costs of a layer of management. With subsequent improvements to our accounting and human resources functions, we stand at the end of the fiscal year reassured that our decisions have provided us with a solid organization that is financially leaner, and more responsive throughout, with a strong management team at the helm. We are better positioned to capitalize on the opportunities before us, the second busiest commercial truck crossing on the Canada/U.S. border and the third busiest in total traffic.

Blue Water Bridge Canada is overseen by a four-member board of directors and operated by our 68 employees, who are dedicated to making the crossing safe, efficient and enjoyable for our international travellers. It has been a pleasure working with my two colleagues, Vice-chair Larry Kinley and Director Gary Atkinson, who are also relative newcomers to our volunteer board. We have one additional federal government appointment on our board that has yet to be filled. I also want to express my sincere appreciation to our employees. Particularly since our re-organization, they have stepped forward, taken on the responsibilities before them and have met and quite often exceeded our expectations for the greater good of the bridge. I am most thankful for their dedication.

Blue Water Bridge Canada is a non-appropriated, federal Crown corporation, reporting through the Minister of Transport; "non-appropriated" means we receive no regular funding from the federal government. Our activities are supported exclusively by our bridge tolls, investment earnings and plaza services. We are a landlord for 16 tenants who are based on the plaza and who operate independently from us: the Canada Border Services Agency; the Canadian Food Inspection Agency; 13 commercial customs brokers and; a transportation logistics firm. For several, we are a benevolent landlord, complying with federal laws that require us to provide suitable inspection facilities and support services at no cost to our two government agency tenants.

Our commitment to provide a quality cross-border service remains firmly intact. Our changes are founded on the current board's belief that the need to be more cost-efficient and smaller in size is far more than simply a nice idea of the federal government. It is a necessary condition that must be firmly anchored in reality, if we are to maintain our services over the long term in a form that the public can afford. Expenditures which might have been the norm only a few years ago are now seen as extravagant and excessive against today's public sensibilities. Whether having to pay through taxes or bridge tolls, we understand that the public can no longer afford to continuously pay more, to compensate for government organizations that fail to contain their costs. In addition to effectively reducing the size and cost of our organization, the board also took decisive action to establish a new and more frugal severance policy, one that is consistent with federal government guidelines and is more appropriate for today's environment of cost constraint. As well, we are moving forward with a comprehensive review of all of our organization's policies.

As a board and as an organization, we are committed to making further, necessary changes that are reflective of today's economic realities and aligned with the public's interests and expectations. We want to be clear and consistent in all aspects of our organization's governance, where our focus remains firmly on continuing to deliver a sustainable service, with a solid hand on our costs.

Marcel Beaubien

Board of Directors

Marcel Beaubien, of Petrolia, Ontario, is Chairperson of the Board of Directors of Blue Water Bridge Canada and is current serving a three-year term. Mr. Beaubien was a member of the provincial parliament of Ontario for the Lambton-Kent-Middlesex Riding from 1995 to 2003. He served as parliamentary assistant to the minister of Finance and to the minister of Agriculture, Food and Rurai Affairs. During this time, he was also a member of various parliamentary committees. The former mayor of the Town of Petrolia and a county councillor for Lambton County, he was an active volunteer member of several boards and committees. He is a developer, builder and manager of small commercial complexes and an advisor for Canadians for Properly Built Homes, a Canadian not-for-profit, national consumer protection organization. He has been a member of Blue Water Bridge Canada's Board of Directors since June 2011.

Larry Kinley, of Port Lambton, Ontario, is the Vice-chairperson of Blue Water Bridge Canada's Board of Directors and chairs its Audit Committee. He is serving a term of three years. Mr. Kinley, who was educated in Lacombe, Alberta, has over 35 years of experience in the geophysical contracting industry and has managed and directed operations in many locations in Canada and the United States. For 28 years, he was a partner in Cangeo Ltd., a geophysical contracting business, and before that gained 10 years experience at Teledyne Exploration Ltd. in Calgary. Mr. Kinley's background has included managing diverse teams on oil and gas exploration and development projects, as well as projects for public utilities, including Union Gas and Enbridge. He has worked with different levels of government, from local townships, counties and provinces to U.S. states' departments and regulatory branches for required permits and access permissions. Mr. Kinley has also contributed to research projects at the universities of Calgary and Winnipeg.

Gary Atkinson, of Wyoming, Ontario, is the newest Board of Directors appointee to Blue Water Bridge Canada, serving a four-year term. Mr. Atkinson has 35 years of experience in the petro-chemical industry. He began his career at Imperial Oil's Sarnia Refinery, before joining Shell Canada in 1972. Mr. Atkinson became a senior operator at Shell's Corunna refinery hydrogen complex near Sarnia, where he worked until 2005. His responsibilities ranged from specialized operations to day-to-day maintenance and training. He was committed to achieving a safe work environment, contributing as a member of Shell Canada's Safety Promotion Team from 1984-2005, and as its chairman from 1993-2005. Among the many community boards Mr. Atkinson has served on, he is past president and director of the Plympton & Wyoming Agricultural Society, a member of the board for St. Francis Advocates, and member of the Sarnia Lambton Chamber of Commerce's Government Affairs Committee. In 2000, he was awarded the Queen's Golden Jubilee Medal.

Management Team

John Elliott, Chief Operating Officer

Michelle Faysal, Interim Chief Financial Officer

Joe Lopetrone, Manager, Operations

Mary Sue Knowles, Manager, Currency Exchange

Joe Dedecker, Manager, Capital Projects

Deric Mathews, Manager, Technologies

Monica Henderson, Manager, Human Resources

Mary Ann Brown, Executive Assistant/Corporate Secretary

Mandate, Governance & Accountability

MANDATE

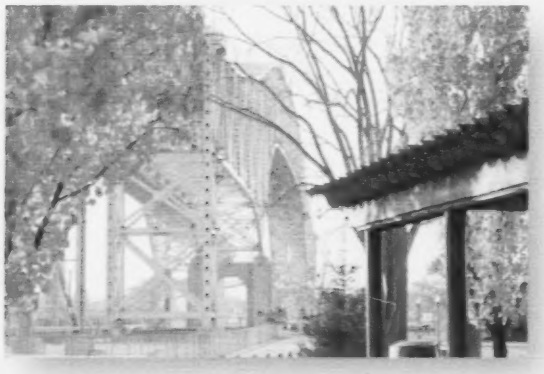
BWBC is accountable for and undertakes the operation and maintenance of the Canadian half of the Blue Water Bridge, twinned structures linking Point Edward/Sarnia, Ontario with Port Huron, Michigan. The original span of the bridge was constructed in 1938 and rehabilitated completely in 1998, while the second span was opened in 1997. Its mandate is to serve as the steward of the structure, to maintain and operate it in a safe and efficient manner for the benefit of its international users. Consistent with its mandate, BWBC's mission is to make its customers' gateway experience safe, efficient and enjoyable. The vision of the corporation is to be recognized by its customers as an essential part of their travel experience. To meet its mandate, BWBC works in close cooperation with its U.S. bridge co-owner, MDOT, to explore and develop more efficient and cost-effective operating practices and to improve customer service.

LEGISLATION AND RESPONSIBILITIES

BWBC was established in 1964 by an act of Parliament, the *Blue Water Bridge Authority Act* (BWBAA). The act provides the framework for BWBC decision making and operations.

BWBC PORTFOLIO

In 2002, BWBC became a Schedule III, Part I, parent Crown corporation under federal legislation, the *Financial Administration Act* (FAA). As a Crown, BWBC continues to manage the various aspects of its operations in support of its mandated objectives, remaining at arm's length from the federal government. In particular, BWBC is responsible for planning and managing functions related to: strategic and master development planning; the setting and administration of corporate policy; finance and accounting; government reporting; stakeholder relations and communications; tolling; infrastructure, grounds and facility maintenance; site security; bridge traffic management; and customer service. The organization bears sole accountability for its portfolio to the federal Department of Transportation, through which it communicates using proactive and scheduled/regulation-related reports, face-to-face exchanges and responses to requests for information.



With the twinned bridges rising as a dominant iconic structure within the surrounding region, the high-profile nature of BWBC's 24/265 operations necessitates that communications and transparency are maintained beyond its employee base, to a variety of plaza and other external stakeholders. Identifying and consistently communicating core messages and providing opportunities for input and feedback regarding its various plans and activities enables BWBC to reach common understandings with its stakeholders and to ensure the mutual benefit of all parties that hold an interest in the bridge.

BWBC is governed by a Board of Directors, with four members appointed by the Governor in Council. During 2013, there was a planned turnover of the membership of the directors. Currently, there are three directors is place, with BWBC awaiting the appointment of the fourth member. Reporting to the Board are the Audit Committee and the President/CEO.

The relationship between BWBC and the Minister of Transport is the responsibility of the Board, with assistance from its executives and program managers. The corporation's strategic direction and related actions are set for BWBC within its legislated mandate by the Board, in consultation with management. Further direction and guidance are provided by government policies, approvals and letters of expectation from the Minister. The BWBC Board annually issued letters of expectations to management, outlining expected actions and outcomes at a high level that are in line with the organization's strategic direction and the government's priorities. Regular progress reports by management and indepth discussions allow the Board to monitor and adjust planned actions, as necessary.

PUBLIC ACCOUNTABILITY

As a Crown corporation, BWBC is subject to the accountabilities set out in the FAA, Part X. It is accountable to Parliament through the Minister, for the conduct of its affairs. The Minister is responsible for the provision of broad policy direction and responses to questions raised in Parliament regarding BWBC activities.

BWBC BOARD

Responsibility

As described in the *Financial Administration Act* and *the Blue Water Bridge Authority Act*, the duties and responsibilities of the BWBC Board are to set corporate objectives and direction, ensure good governance, monitor and audit financial and operational performance, approve budgets and financial statements, approve policies and by-laws and ensure that risks are identified with mitigation measures put in place.

Independence

Directors of the Board are required to act honestly, diligently, carefully and in good faith, in accordance with the *Financial Administration Act*. They are briefed on and operate under the terms of corporate by-laws and policies, which have been created to prevent conflict of interest. Members are required to excuse themselves from decision making related to areas of potential conflict of interest. BWBC requires that directors annually review and acknowledge their understandings of the principles expressed in the corporation's conflict of interest and code of conduct policies and to proactively identify any potential conflict of interest.

The Board's Audit Committee

In accordance with sound governance practices, the Board maintains an Audit Committee. Mandated by the *FAA*, Section 148, the role of the Audit Committee is to ensure that all significant financial measures and operational initiatives are reviewed in detail, with associated recommendations made to the Board. The committee is composed of the four directors, with the role of the chair filled by the Vice-chairperson of the Board.

Audit activities for select responsibilities are conducted by internal and external, independent professionals, as contracted regularly by the Board and appointed by the federal government, respectively. Currently, the internal audit function is performed by Ernst & Young, LLP. The external audit role is conducted by the Office of the Auditor General of Canada.

HUMAN RESOURCES

BWBC currently has 50 full- and 18 part-time employees for a total workforce of 68. Knowledge and abilities required to efficiently and safely operate and maintain the bridge range from specialized expertise to general labour skills. The employee organization encompasses: Operations plaza personnel, to maintain bridge traffic flow, collect tolls and coordinate BWBC's security program; Maintenance workers, to service the bridge infrastructure and facilities and ensure safe traveller passage; Janitorial staff, to ensure clean premises and manage waste recovery and disposal; Currency Exchange clerks, to operate a Canadian-U.S. currency exchange service for travellers; and administration personnel, to provide organizational leadership and support for short- and long-term activities. BWBC is committed to ensuring the ongoing training of its employees to provide the highest level of service to meet its public service obligations.

BWBC is party to a collective bargaining agreement involving members of the Public Service Alliance of Canada, Local 501, which encompasses non-management and administrative personnel. The current collective agreement expires in November 2014.

Management Discussion and Analysis

For the year ended August 31, 2013
Dated November 26, 2013

FORWARD-LOOKING INFORMATION

The following discussion and analysis contains certain forward-looking information, which is based on a variety of assumptions and is subject to risks and uncertainties. Please refer to "Forward-looking Statements" (see Page 20) for further information about related risks and uncertainties and material factors and assumptions.

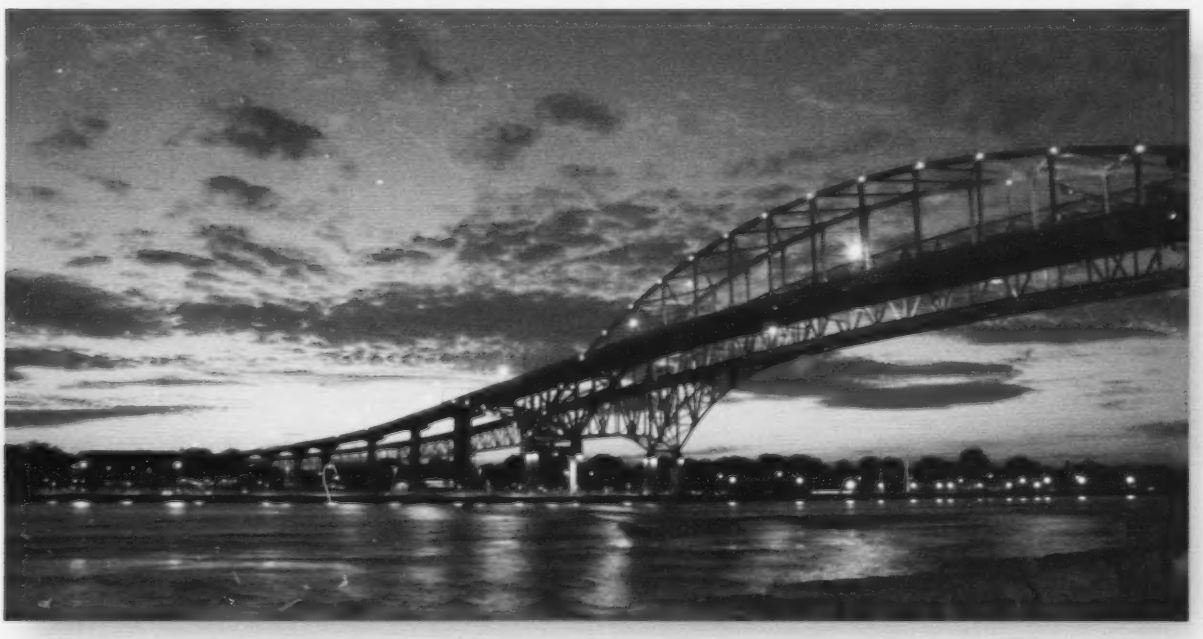
This report presents the financial and operating results of Blue Water Bridge Canada (BWBC) for the year ended August 31, 2013, and should be read in conjunction with the Audited Financial Statements of the BWBC.

During 2013, the Board of Directors undertook a strategic review of its operations, including consultations with business management experts, and determined that certain management numbers were in excess of the organization's needs. As a result, a reduction strategy was implemented, which saw the administration group reduced by five full-time employees, with the hierarchy of the organization flattened by one level. As intended, the strategy has been proven to streamline day-to-day operations, pushing the decision-making process downward closer to the operational level of the organization where performance conditions and needs are best known. Also, it has provided for a realignment of human resources, as well as customer and corporate services to the projected needs of the organization. In mid-March 2013, the incumbent President/CEO resigned. The Board anticipates the appointment of a new President/CEO by the Governor in Council to be forthcoming. In the interim, the Board appointed and directs a Chief Operating Officer (COO) and an Interim Chief Financial Officer (ICFO) to lead the organization's day-to-day business and transitional initiatives.

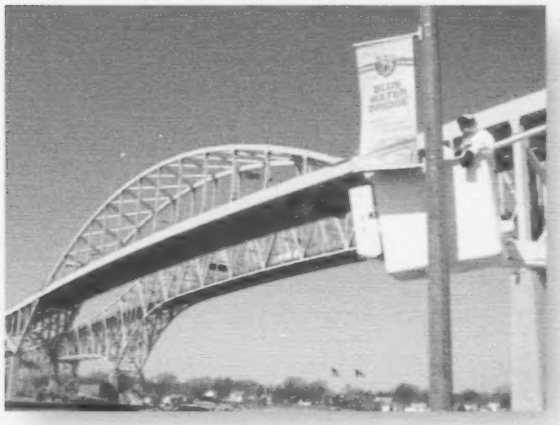
Also during the year, the organization began integrating its competency based management strategy into a broader scope of its Human Resources management program. The process is enabling BWBC to more effectively define and apply its employees' capabilities on a position-by-position basis, to maximize employee engagement and the organization's operating performance.

Since 2008, with the onset of the recession and the subsequent economic recovery, the corporation has been monitoring its personnel numbers closely to assess the need to replace, remove, or add positions. The process takes into account a number of considerations, including: the federal government's cost containment initiative; the need for the position in relation to current and future demand for related services or functions, and; the value of the position now in helping to facilitate greater efficiencies or improvements in the future.

BWBC is undergoing planned changes involving employees in the Maintenance and Operations groups. Currently, BWBC is planning to automate its toll collection system, commencing in mid-2014. Implementation is expected to



result in a reduction in Operations personnel, with a portion of the displaced employees to be shifted to site security and plaza customer service roles. Also during 2013, changes in the Maintenance group were initiated to counteract the impending loss of critical knowledge due to future, anticipated retirements among its members. In order to ensure the efficiency and effectiveness of the department's function and continuity of its knowledge base, staffing



levels have been increased with appropriately skilled workers to facilitate the continuance in house of critical procedural and practical knowledge. In the process, the department is also increasing its range of technical capabilities, particularly involving building management systems, to provide a more efficient and cost-effective, internal alternative for the handling of various core tasks currently being performed by more costly third-party contractors.

OUR PRIORITIES, ACTIONS & PLANS

In meeting its mandate, BWBC is affected by internal and external factors, which reflect on its strengths, create opportunities, present challenges and impact the nature of its business risks. Such factors are identified and monitored on an ongoing basis. Where the characteristics of a factor fluctuate beyond an acceptable range to present an unacceptable risk or opportunity for BWBC's business, specific actions or plans are put in place to mitigate the negative factors, or enhance the positive effects. The following priorities, actions and plans were identified addressed as part of BWBC's 2013 business.

On the Canadian side of the international border, consumer spending and private sector growth continued to lead the recovery of the economy. There was progress, although the rate was unpredictable and slow. On the U.S. side, economic growth also remained slow throughout the year, as businesses and consumers worked to reduce their debt, while federal government efforts centred on debt reduction and economic stimulus policy considerations. Within such a cautionary economic environment, BWBC's toll revenues increased, with a year-over-year growth in commercial traffic volumes reaching 4.6 percent. In a similar comparison, passenger traffic increased by 3.2 percent, while bus volumes grew by 3.4 percent. As traffic volumes and associated revenues continue to increase from the bottom of the global recession in 2009, the rate is expected to remain slow. As such, BWBC is continuing to manage its costs and the size of its workforce carefully and also to review its major maintenance and capital development plans closely, in order to ensure the long-term financial sustainability of its overall operations and services.

Recent throne speeches and expressions of government priorities have consistently pointed to the need for fiscal constraint by all facets of public service, including Crown corporations such as BWBC. In application, the federal government outlined a multi-year program of spending and cost constraint designed to proactively trim the size and cost of public service agencies, while also improving on the delivery of service. In terms of cost constraint, BWBC implemented an aggressive cost-cutting action plan a full year in advance of the introduction of the 2010 federal guidelines. Since the initial restraint measures, the organization's controllable costs have been reduced to 2006 levels. The restructuring of its organization during 2013 was a further commitment by the Board to effectively manage overhead costs and practically reduce the size of its organizational footprint. Of equal importance, the flattening of the organization helped strengthen BWBC's operational responsiveness, by moving decisions and accountabilities closer to where services were being delivered. BWBC remains committed to responding positively to the federal

government's lead in cost containment and right sizing. In the process, BWBC must also remain positioned to respond with an appropriate level of service as traffic volumes continue to recover, so as to ensure the long-term structural integrity of the Blue Water Bridge and the safety of the travelling public.

BWBC interacts with a variety of stakeholders who share an interest in various aspects of its ongoing operations, ranging from the establishment of its policies to the delivery of its projects and day-to-day services. Included are its federal government partner, Transport Canada, local elected representatives, First Nations, provincial, county and municipal governments, community leaders and organizations, educational groups and plaza neighbours.

In maintaining the efficiency and effectiveness of its international crossing, BWBC works continuously with a number of government agencies linked to the Canadian and U.S. plazas. The process involves frequent communications, the establishment of common understandings, practices and procedures, with a focus on response preparedness for unplanned situations that might arise within the dynamic border environment. In particular, the relationships with the Michigan Department of Transportation/Blue Water Bridge, the Canada Border Services Agency, the U.S. Customs and Border Protection Agency, local law enforcement officials and emergency responders must be one based on communications, cooperation and coordination, to continuously ensure the safe, efficient and reliable movement of legitimate international travellers, goods and services.

BWBC also ensures that its bridge operations, its policy decisions and its forward-looking projects reflect the interests and needs of its travelling customers and host communities. Through a variety of means, including the provision of a high-quality service, open and honest two-way communications, participation in community betterment activities and the goodwill of its directors and employees, BWBC must convey the benefits that the Blue Water Bridge brings to its host communities. Only by ensuring that its contributions are clearly understood by all affected stakeholders can BWBC be assured of their ongoing interest and support.

BWBC is committed to working within the requirements of all applicable environmental legislation. In application, a class Environmental Assessment was prepared in 2007 and subsequently approved by Environment Canada under the *Canadian Environmental Assessment Act*, as a precursor to the preparation of the organization's Master Capital Development Plan. The update has been developed within the parameters of the existing EA approval. The assessment addressed all facets of future operations and was founded in detailed environmental investigations conducted in 1983 and in 1994. The 2007 assessment provided the basis for BWBC's Phase One development, which centred on the modernization of the Commercial plaza and administration

The twinned Blue Water Bridge (at top right) with its Canadian plaza (right side, opposite marina), which encompasses facilities for border administration, security and commercial vehicle inspection, business services, site maintenance, tolls collection, currency exchange and passenger traffic inspection.

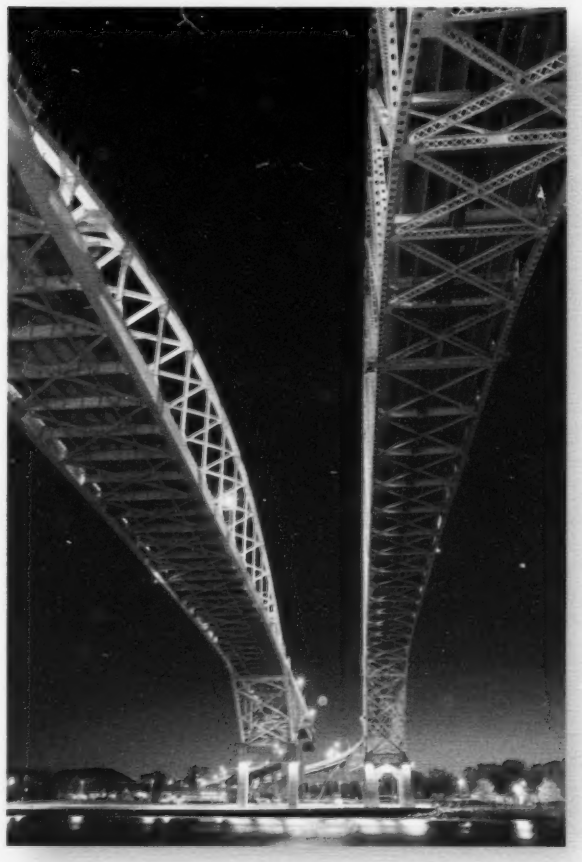
services facilities. Within the same environmental footprint, a subsequent phase of plaza development was prepared during 2013, as the Master Plan Update Project. The associated Phase Two development plan has involved the preparation of a proposal to renew the main plaza toll collection and customer services area, as well as the Traffic inspection facilities.

Considering day-to-day operations, the safe movement of traffic onto the plaza and across the bridge remains a key step of the current master capital plan update project. Through the assessment, a number of potential traffic problem spots have been identified for design improvement. Such areas will be addressed in the updated plaza design and implemented as part of an associated multi-year construction plan. In the meantime, modern variable message signs are in place to help drivers to navigate the border crossing. As well, BWBC Operations personnel maintain proper signage and apply a traffic control management plan to assist travelers in crossing the border in a safe and efficient manner. The recent completion of the Highway 402 Widening Project by the Ministry of Transportation of Ontario has done much to safely convey traffic onto the bridge plaza. In addition, the crossing process is routinely supported by ongoing interagency communications connecting BWBC personnel with 14 border and near-border public safety agencies. BWBC must continue to consider and continuously improve upon the safe movement of traffic in every adjustment it contemplates as part of its future development plans.

To make way for the next phase of plaza development, the original plaza structures will eventually need to be removed. During 2013, the original plaza facilities occupied by the Canadian Food Inspection Agency (CFIA) were demolished. In addition, a former residential structure owned by BWBC was demolished in anticipation of the future expansion of the plaza duty free shop facilities. Prior to any development, archaeological investigations were undertaken across the cleared site, as required under a memorandum of understanding established with the Aamjiwnaang First Nation in 2002.

With further, large-scale development of the main plaza unlikely to occur within the next 5 to 8 years, the Board has directed management to investigate options for repurposing the former administration offices on the main plaza. Interest in the facilities for short- and medium-term storage has already been expressed by a current plaza tenant. Other passive use options are also being investigated.

Maintaining the security of the bridge structure and all associated lands is an ongoing responsibility that involves all BWBC employees. A wide range of measures, including standard operating practices and modern electronic devices, are in place for monitoring areas that are heavily travelled, as well as the less-visible areas. Within the past decade, three security assessments of the bridge facilities have been conducted. With the implementation of the *Bridge Security Memorandum of Understanding* with the Minister of



Transportation, BWBC began to update its property risk assessment during 2013. Any recommendations for further improvement coming from the assessment would be addressed as required by the agreement.

To ensure the structural integrity and safety of its cross-border travellers, BWBC maintains its bridges and associated structures in accordance with standards set by Canadian and U.S. federal regulatory agencies. The Canadian half of the Blue Water Bridge stands in sound condition, in part, as a result of BWBC's diligence in performing a yearly engineering assessment by a qualified professional and then acting on any maintenance recommendations in a timely manner. Prior to 2012, BWBC and its bridge co-owner, MDOT/BWB, each contracted its own consultant to perform an assessment of its bridge assets and then exchanged the resulting reports. Since 2012, however, BWBC has formally partnered with MDOT/BWB to contract a single consulting engineering firm to perform the assessment and to report its findings. The joint undertaking is expected to produce an all-encompassing and cost-effective assessment for the shared benefit of the

two owners. In 2013, the second of a three-year service agreement with Parsons Transportation was implemented. Based on the recommendations contained in the annual engineering report, BWBC develops and undertakes its ongoing program of bridge maintenance, which centres on the integrity of the bridge structure and the safety of the travelling public. The program includes a variety of activities, ranging from routine seasonal cleaning, painting and repair procedures to larger-scale bridge deck and infrastructure improvements and utilities modernization projects. Each identified task is budgeted for an appropriate time frame, based on the need and coordination of resources. BWBC is also responsible for overseeing capital projects and providing day-to-day maintenance and janitorial support for the CBSA and Canadian Food Inspection Agency (CFIA) personnel and facilities operating on its Canadian plaza.

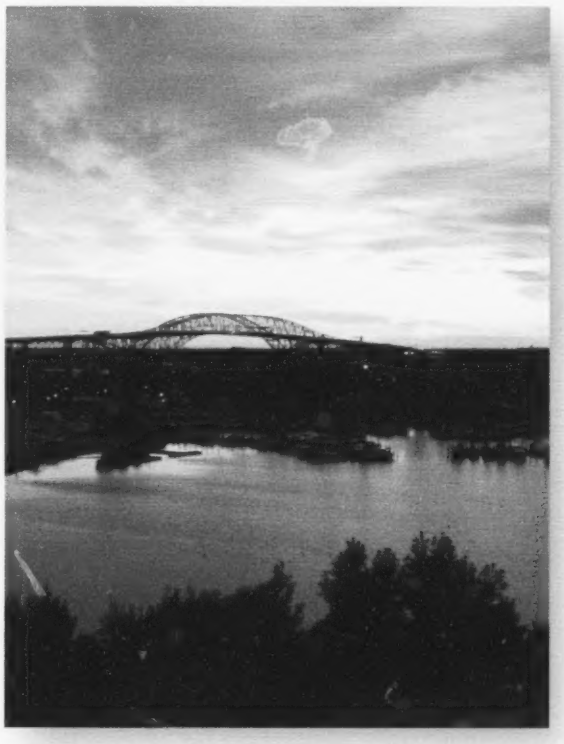
In bridge maintenance, repair and construction, there is an increasing need to apply new practices and technologies, assess the condition of the infrastructure and monitor the movement of certain critical elements, in order to determine an effective remedial strategy. While much can be accomplished with annual minor maintenance repairs and protection, the aging structure will eventually require larger-scale capital works, in order to maintain the structure within acceptable limits.

The in-house capabilities of BWBC's Maintenance Department have done much over the decades to keep the bridge in sound shape. The crews continue to perform a variety of mechanical and electrical tasks and repairs, as part of their daily and seasonal routine. As with many workforces in Canada, BWBC's aging workers will need to be supplemented with new talent, who can learn from their experienced coworkers and continue on with the core work of the department. Also, in recent years, new technologies have been introduced onto the plaza. In the short term, the technical expertise to oversee and maintain the Blue Water Bridge Corporate Centre's automated building management system and the increasingly sophisticated HVAC systems is being provided largely by outside contractors. However, to maintain its facilities cost-effectively over the mid- and longer term, BWBC began in 2013 to establish its own technical capabilities within its Maintenance Department. During the year, Maintenance know-how was expanded by providing select personnel with specialty equipment training and by hiring technically skilled workers.

Since its formation, BWBC has prided itself in operating as a self-funded entity. On one occurrence, during the implementation of the largest capital development program in the organization's history from 2009-2011, the BWBC was fortunate to be awarded a grant under Canada's Economic Action Plan and Infrastructure Stimulus Fund. It has been the organization's practice to build up its fund reserves during years of ongoing operations, in anticipation of those periods when major capital projects were planned. During the most recent development period from 2009-2011, the organization undertook a most ambitious program, further fuelled by federal government grant monies, which substantially drew down its reserves. A challenging period of slow growth has followed, prompting the Board and management to readjust its annual operating program to ensure that a sufficient level of reserves remained in place to meet its long-term debt obligations and future maintenance and development needs. During 2013, a portion of cash was designated for specific reserves.

BWBC is responsible for the retirement of $110 million/6.41 percent revenue bonds, which are due in July 9, 2027. Bond covenants are in place to ensure adequate liquidity over the duration of the bond issue. During this period of time, in the event temporary operating cash deficiencies occur resulting from the timing of capital expenditure payments, a $15 million line of credit is in place. An additional credit facility of $15 million was secured during 2011 to finance the infrastructure program. BWBC's total borrowing may not exceed $125 million. As per the Minister of Finance's approval of the borrowing plan, the second line of credit is not to be used to cover cash shortages resulting from operating losses. As reaffirmed by the federal government in 2012, the corporation is required under provisions of the *Customs Act*, Section 6, to cover the costs of providing and maintaining facilities and services associated with the Blue Water Bridge-based CBSA and CFIA organizations, whose combined annual expenses now exceed $1M.

At the conclusion of FY2013, BWBC is well positioned to



satisfy its existing bond covenants and remain financially self sufficient. The current financial plan recognizes the continued recovery of bridge traffic and, hence, increasing revenues. Along with the continued growth comes the extended degree of flexibility to implement further master capital plan developments and ongoing maintenance activities, when required. As well, BWBC retains its ability to introduce further toll rate increases in the future, as needed.

As announced in the 2010 federal budget, the operating budgets of departments and Crown corporations that are funded through Parliamentary appropriations are frozen at 2011 levels for both 2012 and 2013. The government's guidance does not apply specifically to non-appropriated Crown corporations. However, BWBC will continue to abide by the spirit of the expenditure constraints announced, although wages are funded by tolls revenues. A spending freeze will be maintained on controllable costs, such as travel, conferences, consulting services and hospitality. In 2013, wages increased by 2.7 percent, as prescribed under a collective agreement reached in November 2010. Concurrently, salaries for administration, supervisory and management personnel were raised by 1.5 percent, consistent with the Consumer Price Index value for Ontario.

Revenues generated from bridge tolls represent approximately 80 percent of the corporation's income. As prescribed under the BWBAA, tolls rates are regularly reviewed by the Board, and routinely adjusted, as circumstances warrant. Over the years, the Board has remained sensitive to the impact that bridge toll rates have on its customers, appreciating that the current state of the economy poses challenges for business owners and private citizens alike.

In 2013, the Board authorized management to proceed with the acquisition and installation of an automated tolling system in 2014. Preliminary investigations into modern tolling system options indicate that the improvement would offer benefits to bridge travellers as well as to BWBC. For example, a modern, automated system could offer customers the additional convenience of making toll payments using debit and credit cards, as well as a special-purpose infrared reader technology-based bridge payment card/decal. Also, a new system could streamline BWBC's back office services and provide a customer interface where travellers could login over the Internet and establish and maintain their own accounts themselves, with payments being automatically bank deposited, and account standings presented on demand. It is recognized that a reduction in the number of tolls collection staff would be a consequence of the system upgrade, although the exact number would need to be addressed as adjustments in associated security and customer service personnel needs are determined.

Over the 75 years of operation, the Blue Water Bridge co-owners have seen good reason to work together on a variety of occasions and projects for their mutual benefit. It was on this premise that BWBC and MDOT representatives began meeting on a regular basis to explore potential opportunities for working together to jointly improve the efficiency and cost-effectiveness of their operations, and the quality and extent of customer services. To reinforce their efforts, customer feedback on existing services would often include, "We only cross one bridge. Why should we have to deal with two separate bridge companies? It wastes time and money for everyone." Keeping the efficiencies of a "one bridge" model in mind, the two partners have undertaken a range of shared projects during 2013, including:

- Bridge snowplowing operations and surface de-icers
- Equipment and expertise sharing
- Application of additional inspection booths to reduce U.S-bound traveller wait times
- A common annual bridge engineering assessment
- Joint 75th anniversary activities and purchases
- Shared automated tolling system investigations, and
- Common use of tolling tokens.

The interaction to date has yielded a number of core benefits, with the potential for further returns on the horizon.

Opened in 2011, the Blue Water Bridge Corporate Centre, in Point Edward, ON., is the base of administrative offices for Blue Water Bridge Canada, the local contingent of the Canada Border Services Agency (including its commercial vehicle inspection facilities) and the Canadian Food Inspection Agency (including its live animal inspection facilities), as well as 14 customs brokerage/transportation logistics firms.

BWBC's infrastructure of networks and systems, managing the transmission of utilities and data through the plaza encompasses a broad mix of old and new, integrated and disparate installations. With much of the infrastructure installed to service the original buildings on the Canadian plaza, which are due to be demolished in the future, it is time to take a comprehensive view of the network, including updating technologies and establishing a network that would more effectively meet BWBC's current and future needs. Since 2011, efforts have been made to migrate main utility services and I.T. networks away from aging buildings to form a stand-alone service loop, capable of meeting current and future needs across the entire plaza. During 2013, technical specialists completed the migration of electrical and communications network services across the Span 2 bridge. The project, which included the installation of fibre optic communications cable, facilitated the relocation of the services away from the original plaza buildings, which will be eventually removed as part of future capital development. In its entirety, the infrastructure improvement initiative would positively advance all aspects of BWBC's operations, and facilitate the linking and improvement of various systems, including tolling, currency exchange, accounting, employee shift timekeeping, and human resources management. In managing such an extensive, multi-year project, BWBC must ensure that project is appropriately phased to accommodate future capital development, as is currently being developed under the master capital plan update project.

Based on customer consultations, BWBC has come to realize that its volume of commercial truck traffic has less to do with its on-site amenities and more to do with the Blue Water Bridge's position along the shortest route between a trucker's starting point and destination. Given the competitiveness of the commercial trucking industry today, there are limited new market opportunities for the corporation to pursue to encourage an increase in its annual traffic volumes. However, there is a potential to generate additional revenues by targeting the private passenger vehicles. Particularly during the summer months, when families continue to take to the highways for vacation travel, an appropriate, on-site attraction could easily send private travellers an hour or two out of their intended routed. Such possibilities are part of the considerations that are going into the Master Capital Plan Update Project

As part of its current master capital plan update project for the Canadian plaza, BWBC must endeavour to create opportunities to position itself in the most favourable light before its passenger vehicle travellers, as the preferred or "essential" crossing of choice, with a possible goal of attracting a stable, yet growing customer base. In developing a customer-centric Canadian bridge plaza, BWBC must ensure that its administrative and operational decisions and actions are recognized by its customers as:

- Providing a secure and safe rest station that offers a worry free environment, allowing them to recognize and appreciate the high level of responsible care being maintained in their interests

- Contributing to the efficiency and convenience of customer travel, by taking extraordinary and innovative measures to ease travellers' border crossing anxiety; includes such measures as: ensuring the application of intuitive plaza designs and variable message signage, which reflects a driver's natural inclinations, observations and practices; responsibly advocating on

behalf of the Blue Water Bridge's customers before border security authorities for the simplification and coordination of cross-border security procedures; supporting government traveller education programs and supporting the sound and efficient management of cross-border trusted traveller programs, such as NEXUS, and

- Providing drivers with appropriate knowledge in advance of their border crossing to orient them to the environment, features and benefits of the Blue Water Bridge plaza.

RECENT EVENTS

Subsequent to year end, the Government of Canada announced the planned amalgamation of a number of its international bridges, including the Blue Water Bridge. The announcement was included in the government's implementation bill, *Economic Action Plan Act, No. 2*, which was tabled and received first reading on October 22, 2013. BWBC is anticipating that the amalgamation will be completed by the end of 2014. Management and the Board are working with the Federal Bridge Corporation and Transport Canada to affect the change. The results of operations discussion below and the audited financial statements for the year ended August 31, 2013, do not reflect the impact of any potential change in operations as a result of the amalgamation initiative.

RESULTS OF OPERATIONS

In reviewing the financial results, it is important to note that BWBC is a federal Crown corporation without share capital. Under BWBC's financial model, all funds, whether generated through revenues or debt, are used for bridge operations, ancillary bridge-related activities, construction, repairs and maintenance, debt payments, reserve funds and other activities within BWBC's mandate.

Revenues are derived from four primary sources: tolls and services; rents; Currency Exchange services, and; interest and sundry income. The profitability of BWBC is affected by a number of factors, including fluctuating exchange rates, the strength/weakness of both the Canadian and the U.S. economy and tourism in the local area, Sarnia-Lambton. Profitability is largely dependent upon positive economic activity in both Canada and the U.S. When the U.S. economy is robust or expanding, exports of Canadian products tend to rise. A growing Canadian economy will also result in an increase in the flow of goods, services and people across the land border. BWBC's profitability improves with increased economic activity, since the Blue Water Bridge is a major international crossing between the two trading nations.

Sales volumes at the Blue Water Bridge Duty Free Shop and Currency Exchange service are affected by changes in the rates of the Canadian and U.S. dollars and with cross-border traffic volumes. During much of 2013, the value of the Canadian dollar was lower than that of the U.S. dollar, which would suggest that American travellers could receive greater value for their money by travelling in Canada. However, discretionary trips into Canada by U.S. travellers remain suppressed, due mainly to rigorous traveller documentation requirements introduced by the U.S. Department of Homeland Security in 2009 under its Western Hemisphere Travel Initiative. At the same time, Canadians are crossing into the United States for short-term shopping trips in greater numbers, attracted by lower retail prices, particularly when the U.S. dollar moves closer to parity with its Canadian counterpart.

A higher level of Duty Free Shop sales activity as a result of increased traffic volumes translates into additional rental income for BWBC, the business' landlord. As well, increased activity at the Currency Exchange service results in additional revenues for BWBC, which owns the local operation. BWBC works with the Duty Free Shop and its Currency Exchange team on an ongoing basis to promote traveller awareness and to help encourage a positive business environment for the two enterprises.

Summary of Results

Following is a summary of selected financial results, comparing the two most recent fiscal years and the 2013 Corporate Plan.

Year ended August 31

(in thousands of dollars)

	2013	2012	Corporate Plan
	$	$	$
Revenues	**24,751**	22,002	22,573
Expenses	**23,305**	26,447	29,294
Comprehensive income (loss) for the year	**1,446**	(4,445)	(6,721)

Overall, the improved operational performance is a direct result of decisions made by Management and the Board of Directors during the past year.

Revenues were $2.7 million higher than the prior year and $2.2 million more than planned, primarily due to an increase in truck and car traffic, coupled with a toll rate adjustment across all vehicle segments of $.25 per vehicle in January 2013. Improving economies in Canada and the United States contributed to the increase in revenues. It is anticipated that the trend contributing to a continuing, but gradual improvement of revenues will continue into the next fiscal year.

Expenses were $5.9 million lower than originally planned and $3.1 million lower than the prior year, primarily because BWBC was able to extend non-essential maintenance projects to future years. Following the review of a third-party engineering report prepared for BWBC, management has implemented a staged maintenance program. Select maintenance work will continue in 2014, while the phased repaving of the bridge spans, a major maintenance project, will commence in Fiscal 2015 and continue through Fiscal 2017. The effect of the corporate restructuring during Fiscal 2013 resulted in increased administrative expenses, offset in part by reductions in salaries, wages and benefits. All other expenses were less than originally planned for the year. The largest component of expenses related to the depreciation of BWBC assets. While significant, it is important to understand the non-cash nature of such expense line items in the financial statements.

Detailed Review of Results

OPERATIONS

Year ended August 31

(in thousands of dollars)

	2013	2012	Corp Plan
	$	$	$
REVENUES			
Tolls and services	20,156	17,730	18,312
Facility rentals	2,632	2,553	2,562
Currency exchange department	1,625	1,356	1,370
Interest and sundry	344	349	329
(Loss) gain on disposal of property, plant and equipment	(6)	14	—
	24,751	22,002	22,573
EXPENSES			
Depreciation of property, plant and equipment	7,229	7,585	9,311
Interest on long-term debt	5,842	6,109	5,918
Salaries, wages and benefits	5,921	6,025	6,159
General and administrative	2,094	1,781	1,801
Maintenance and other expenses	1,494	2,267	5,093
Depreciation of investment property	754	819	1,000
Depreciation of intangible assets	70	161	12
(Recovery from) contribution to MDOT	(99)	1,700	—
	23,305	26,447	29,294
Comprehensive income (loss) for the year	1,446	(4,445)	(6,721)

REVENUES

Tolls and Services Revenue increased by $2,426 or 13.7%, driven by an increase in passenger vehicles of 59,709 and commercial vehicles of 31,589 (3.2% and 4.7% increase, respectively). As a result of the January 2013 toll rate increase and the growth in vehicle volumes, toll revenues increased by $2,116. Also, the weaker Canadian dollar during much of 2012 had a positive effect on United States dollar cash holdings within the tolls and services line item ($296 increase). In comparison to the corporate plan, toll revenue was higher than expected, by $1,844 or 10.1%. Truck traffic increased by 64,232 or 10.0% more than forecast and car volume was 50,100 or 2.7% more than the plan ($1,683 increase).

Facility Rentals Revenue increased by $79 due primarily to increased revenue from the Duty Free Shop. Duty Free revenue was higher than the corporate plan expectations as well ($70 increase). The Duty Free Shop pays a base rent, plus rent as a percentage of sales. Increased traffic at the bridge resulted in an increase in sales at the Duty Free Shop, which resulted in improved rental revenue. Other rental income is derived from the rental of space at BWBC's Blue Water Bridge Corporate Centre to customs brokers/transportation logistics firms. Property rental revenue is also received from Tourism Ontario, which occupies space in BWBC's Travel Information Centre.

Currency Exchange Department Revenue increased by $269 as a direct result of the fluctuating exchange rate on existing USD cash balances ($137 increase), combined with an increase in activity ($132 increase). The Currency Exchange service is managed in accordance with the regulations for financial institutions, as administered by the Financial Transactions and Reports Analysis Centre of Canada, and is subject to regular, third-party compliance audits. As required, the Currency Exchange completed the update of its Money Service Business registration records during the year, in addition to an internal, third-party audit review of its processes.

Interest and Sundry Income decreased due to a drop in interest rates for current investments, compared to long-term investments during the previous year. BWBC manages its investments to provide the necessary cash flow for capital projects and to ensure reserves required to meet future debt obligations are maintained. As such, BWBC's investment policy is necessarily conservative and, therefore, subject to interest rate fluctuation, given the nature of permitted investment vehicles.

EXPENSES

Depreciation Expense decreased mainly because net additions in fiscal 2013 were significantly less than the prior year. In comparison to the corporate plan, depreciation expense was $2.0 million lower. Changes made last November to BWBC's Capital Asset Policy as a result of the implementation of IFRS subsequent to the submission of the BWBC corporate plan were the direct cause of this variance.

Interest Expense decreased due to a decrease in the remaining principal for the bond and bank loans ($267 decrease).

Salaries, Wages and Benefits Expense remained consistent with a slight decrease in benefits due to lower discount rates in the employee future benefits expense coupled with the changes in staffing as a result of the corporate reorganization which took place part way through the year ($179 decrease). In comparison to the corporate plan, these expenses are lower due to restructuring carried out directly by the Board of Directors in March 2013 ($239 decrease) that was not projected in the Corporate Plan when it was submitted in June, 2012.

Maintenance Expenses decreased due to less need for major maintenance on the bridges in fiscal 2013 ($657 decrease). In comparison to the corporate plan, maintenance is much lower mainly due to the rescheduling of bridge span 1 paving and plaza paving ($3,236 decrease). Based on BWBC's bridge inspection report, the routine maintenance made throughout the year expanded the life of the pavement and full repairs will not be required until fiscal 2015.

General and Administrative Expenses increased relative to both the prior year and the corporate plan primarily due to the need for consultants to assist BWBC with its master capital planning and its restructuring. In addition, fiscal 2013 saw its first increase under the new Municipal Property Assessment Act amendments, which will be rolled in over a four-year period. Increased property taxes of $139 are reflected in the current year for a total increase in General and Administrative Expenses of $358.

Contribution to Michigan Department of Transportation was a one-time expense in 2012 to help alleviate traffic congestion on the US side of the bridge. Considerable improvements were made in fiscal 2013 to the delays experienced in the past. The recovery in fiscal 2013 was the result of the project coming in at less than originally budgeted and accrued.

Financial Position

Following is a summary of selected financial results for the two most recent fiscal years.

Year ended August 31

(in thousands of dollars)

	2013	2012
	$	$
ASSETS		
Current	14,282	10,109
Long-Term	229,695	237,395
	243,977	247,504
LIABILITIES		
Current	**8,562**	9,941
Long-Term	**97,079**	100,673
	105,641	110,614
NET EQUITY	**138,336**	136,890

LIQUIDITY AND CASH FLOW

The cash position of the BWBC has continued to strengthen, following the completion of capital projects during the past two fiscal years. Starting with $9.3 million in cash at the beginning of the fiscal year, a further $8.0 million in cash was generated from operations during the ensuing 12 months. The amount was partially offset by the undertaking of $0.8 million in capital projects, the pay down of $3.5 million in bond principal and $0.4 million in bank debt. Approximately $12 million remained in cash balances at the end of the year.

BWBC is required under the terms of its long-term bonds agreement to maintain certain cash reserves. The reserves, totalling approximately $6.4 million, are included in long-term assets and do not form part of the operating cash funds. Management's investment policy requires that the funds be maintained in secure, liquid investments. Oversight is provided by the Audit Committee of the Board of Directors, which also serves as the Investment Committee. The ongoing review of compliance with the debt agreement covenants is performed by both management and the committee.

Over the next five years (2014-2018), the existing cash and investment balances, in tandem with continued, expected positive cash generated from operations, will finance the planned capital projects, which are minimal and required bridge maintenance. The remaining cash will be invested for future capital development of planned facilities and services.

Current liabilities consist primarily of the long-term debt obligations ($4.1 million) and deferred toll revenue accounts generated through commercial trucking accounts for prepaid toll payment cards ($2.4 million). The deferred revenue component is a growth area for the BWBC. It is anticipated that revenue will continue to increase with the implementation of the new automated toll system in 2014.

The largest component of non-debt, long-term liabilities is a provision for employee future benefits. BWBC maintains a comprehensive benefit plan for current and retired employees. Anticipated future obligations under the current terms of these plans are estimated to be $6.3 million.

INVESTMENT IN CAPITAL

Ongoing capital improvements during 2013 were focused on the Span 2 bridge infrastructure & services network upgrade, which commenced in 2009. Total costs for the project since inception have approximated $2.7 million.

Part of the project involved the relocation and enhancement of electrical and communication equipment. A critical electrical distribution system for the plaza was migrated away from the original, closed administration buildings to facilitate the efficient servicing of future plaza development, while allowing for the demolition at a later time of abandoned buildings. The plan also included the installation of an emergency backup generator and a new supply service to the adjacent plaza zone.

CRITICAL ACCOUNTING POLICIES AND FUTURE POLICY CHANGES

BWBC monitors changes to the International Financial Reporting Standards on a regular basis. Note 3 (j) of the audited financial statements outlines, in detail, the changes expected in the next fiscal year. Of the anticipated changes,

BWBC has only assessed the impact of implementing International Accounting Standard 19, which requires entities to recognize actuarial gains or losses and past service costs directly in other comprehensive income and profit and loss, respectively, in the period in which they are incurred. Details are provided in the notes to the financial statements.

Risks and Uncertainties

BWBC's Board of Directors is accountable for the oversight of principal risks associated with the organization's business and has delegated oversight of the risk management process to its Audit Committee. The Audit Committee is responsible for ensuring that management has appropriate policies and procedures in place and being effectively applied to identify and manage specific risks.

BWBC's management of its risks is governed by a Risk Management policy, which sets out the Board's responsibilities to:

- Understand the significant risks to which BWBC is exposed;
- Establish appropriate and prudent risk management policies for those risks, review the policies regularly, and satisfy the Board on an annual basis that the policies continue to be appropriate and prudent;
- Obtain reasonable assurance, on a regular and annual basis that the policies continue to be appropriate and prudent; and
- Obtain reasonable assurance, on a regular and annual basis, that the Corporation has an effective risk management process and that risk management policies are being administered, maintained and updated as required.

The Board's Audit Committee is mandated to assist in carrying out the associated responsibilities and has established expectations of management with respect to supporting the Board in fulfilling its risk management responsibilities. BWBC's risk management process and results are subject to validation by BWBC's internal auditor.

BWBC operations and its financial results are subject to certain risks. At present, they include, without limitation, the following:

Self-Sustainability Risk – BWBC operates as a non-appropriated Crown of the federal government. Funding for bridge operations and capital is generated by way of operation-related funds or debt, not government-funded support. As of August 31, 2013, BWBC had outstanding debt obligations, including accrued interest, of approximately $94 million the proceeds of which were used to rebuild and expand the bridge's infrastructure. In its management of costs and revenues, BWBC has examined scenarios to determine the range of impact of variability in the bridge's operating activity, costs and revenues on cash flows and funding requirements. The toll rate-setting methodology targets levels of cash flow sufficient to not only fund operating expenses, maintenance and restoration capital expenditures, but also, in most years, to fund other capital investments and debt repayment. Depending on the timing of cash flows and actual operating activity levels in any given year, BWBC may use it prerogative to consider implementing additional toll increases to support its operations. The risk of insufficient cash flows has a direct impact on BWBC's ability to manage its debt obligations and ensure compliance with its debt covenants. Rolling five-year corporate plans are prepared/updated annually and reviewed to identify the long-term cash needs that will support infrastructure and debt management. Transport Canada reviews and approves the annual plan submissions to ensure the ongoing sustainability of bridge operations. Bond rating agency Standard and Poor's rates BWBC's existing bonds on an annual basis providing further oversight and assurance that debt obligations can be met.

Regulatory Compliance Risk – Bridge operations are governed by a number of domestic regulations and standards. The failure of BWBC to meet regulatory requirements might have an impact on the BWBC's ability to operate the bridge or achieve its strategic goals and objectives. Management of BWBC meets regularly with its bridge co-owner, Transport Canada and other regulators to ensure it remains compliant with all applicable requirements. Oversight of the Currency Exchange service is provided by the Office of Financial Institutions compliance audit program. Anti-money laundering/counter terrorist financing compliance reviews and audits are conducted on a regular basis and require absolute compliance in order to maintain operations. Regular internal audit reviews support management's accountability in the business segment.

Asset Integrity Risk – The provision of services at the Blue Water Bridge is dependent on the availability of physical infrastructure, such as plaza buildings, roadways, bridge spans, etc. In addition, BWBC is highly dependent on information technology assets and data. Should any related assets become unavailable due to an accident, incident or maintenance failures, the ability to provide services and earn revenue might be impaired. BWBC maintains insurance to protect itself against damage to its property and business interruption. While the organization operates a well-developed asset management system, including proactive bridge inspections, repairs and maintenance, there always remains the risk of an asset failure that might have an impact on operations or financial results.

Security Risk – The Canadian government is responsible for national security and public protection through passenger and commercial vehicle inspection at the bridge through its two agencies, the Canada Border Services Agency and the Canadian Food Inspection Agency. BWBC is responsible for other aspects of site security and safety, including protecting the integrity of the bridge infrastructure, the associated plaza and its tenants. Working with the Blue Water Bridge co-owner, the Michigan Department of

Transportation, as well as the U.S. Department of Homeland Security's Customs and Border Protection Agency and area law enforcement and emergency responders is also part of BWBC's responsibility of ensuring safe operations across its holdings. The inability of BWBC to maintain a safe and secure environment for its employees and customers and for its physical assets might result in a loss of confidence by the travelling public or commercial vehicle operators, leading to a reduction in activity and associated revenue at the bridge. A security breach might also result in enhanced regulation, affecting bridge users and tenants and in lost revenue or additional expense to BWBC.

Partnership Risk – BWBC works in partnership with a number of other parties at the bridge to ensure the safe and secure cross-border movement of commercial and passenger vehicles. Associated parties include government agencies, international bridge operators and third-party vendors. Should any of the parties fail to deliver services as required, or in a manner that is out of sync with other partners, there might be impacts that impede BWBC's ability to deliver a valued service to its customers and stakeholders. BWBC has limited control over its partners in many instances. A failure to capitalize on an alliance or partnership opportunity might adversely affect BWBC's ability to meet its business objectives or public service obligations. In many instances, where, for example, government agencies are involved, there is no alternative party with which BWBC can work in order to deliver the required service.

Political Relationship Risk – As a federal Crown corporation, operating under the Minister of Transport's portfolio, BWBC is subject to policy, regulation and legislation enacted by various levels of government, including those governing bridge safety, security and operational standards. Unanticipated or adverse changes to such policies, regulations or legislation might adversely affect the operations of the bridge and the financial condition of BWBC. BWBC's relationships with politicians or government bodies affect its ability to influence positive change and deliver efficient and effective operations and to meet its public service objectives.

Resource Management Risk – Efficient and effective governance and operational management are key objectives of BWBC. The Board of Directors has undertaken a number of initiatives to implement its Strategic Plan. Should appropriate resources (skilled human and financial) not be appropriately identified, secured, aligned and prioritized, the BWBC may not be successful in implementing these plans and realizing its Strategic Plan objectives.

Labour Risk – The current collective agreement between BWBC and the Public Service Alliance of Canada, Local 501, which represents the BWBC's unionized wage employees, expires in November 2014. Earlier in 2014, BWBC and union representatives will commence the collective bargaining process to determine the terms of a new agreement. In the event of a labour disruption involving BWBC's unionized employees, the organization will activate a contingency plan to maintain the safe and secure operation of the bridge.

Community Support Risk – Any action, inaction, perceived action, or perceived inaction by BWBC, its representatives, or business partners might impair BWBC's image publicly, resulting in a loss of public confidence, increased regulator intervention, or harm to its brand. BWBC meets regularly with tenants, government officials, local businesses, municipalities and the general public to share strategic initiatives and to garner input and feedback from interested parties to ensure ongoing understanding and support for its bridge operations and long-term plans.

Competition/Market Share Risk – In some instances, commercial and passenger vehicle operators might have alternative routes for travelling between Canada and the United States, including other bridges, or alternate modes of transportation. The Windsor, Ontario-Detroit, Michigan corridor is a competing bridge traffic zone. Factors such as price, destination location and route convenience might influence the choice made by cross-border travellers. Open access expressways and BWBC's programs of maintenance and security at the bridge are leading influences in the effort to maintain bridge traffic. Joint projects with the Michigan Department of Transportation, which promote the safety of bridge traffic, along with the provision of services to enhance traveller experience, such as the stacked toll booths and Currency Exchange, contribute to BWBC's ongoing success of operations.

INTERNAL AUDIT FUNCTION

As part of the oversight of BWBC's risk management program, the Audit Committee of the Board has the responsibility to receive and review internal audit reports provided by the BWBC's internal auditor, Ernst & Young, LLP.

During fiscal 2013, Ernst & Young conducted two internal audits as follows:

Board Governance

A board governance audit was conducted to capture the opinions of the Board, along with senior management of the organization concerning business leadership effectiveness regarding: the effectiveness of corporate governance; potential areas for improvement, and; best practice guidance. As a result of the review, the Board developed and implemented a restructuring plan to streamline the organization, contain costs and strengthen its long-term performance.

Revenue Management

A revenue management audit was conducted to review whether appropriate processes and controls were in place

to ensure that BWBC revenues were being adequately identified, recorded and received. The report concluded that there were opportunities for improvement, which were addressed by management prior to year end. The annual external audit process conducted by the Office of the Auditor General of Canada included a review of the process and the changes implemented by management.

FORWARD-LOOKING STATEMENTS

This management discussion and analysis contains certain forward-looking information about BWBC. The forward-looking information is based on a variety of assumptions and is subject to risks and uncertainties. There is significant risk that: predictions, forecasts, conclusions and projections, which constitute forward-looking information, will not prove to be accurate; the assumptions might not be correct and that actual results might vary from the forward-looking information. BWBC cautions readers of this document to not place undue reliance on the forward-looking information, as a number of factors could cause actual results, conditions, actions, or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking information.

Words such as "believe," "expect," "plan," "intend," "estimate," "anticipate" and similar expressions, as well as future or conditional verbs such as "will," "should," "would," "could" and "might," often identify forward-looking information. Such forward-looking statements are not facts but only estimates regarding future results. The estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities. While management considers its assumptions to be reasonable based on available information, they might prove to be incorrect. In addition, actual results might differ materially from those expressed, implied or forecasted in such forward-looking information, which reflect BWBC's expectations only as of the date at which it was prepared.

Factors that could cause actual results or outcomes to differ materially from the results expressed, implied, or forecasted in such forward-looking information include, among other things, items noted previously in the section titled *Risks and Uncertainties*. The reader should review the section in detail.

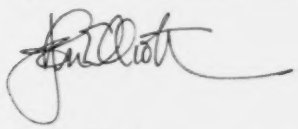
The forward-looking information contained in this section of the document represents expectations as of the date of this report and is subject to change. BWBC disclaims any intention, or obligation to update or revise any forward-looking information whether as a result of new information or future events, or for any other reason, except as required by applicable law.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

Management of Blue Water Bridge Canada is responsible for the preparation and fair presentation of the financial statements and all other information contained in this annual report. The financial statements have been prepared in accordance with International Financial Reporting Standards and necessarily include certain amounts that are based on management's best estimates and judgment. Financial information contained throughout the annual report is consistent with that in the financial statements. Management considers that the financial statements present fairly the financial position of the corporation, as well as its financial performance and its cash flows.

To fulfill its responsibility, Blue Water Bridge Canada maintains systems of internal controls and practices to ensure the reliability of financial information, the safeguarding of assets and compliance with the *Financial Administration Act* and regulations, as well as the *Blue Water Bridge Authority Act* and by-laws of the corporation. The internal control systems are subject to periodic reviews by internal auditors. The external auditor, the Auditor General of Canada, has audited the corporation's financial statements for the year ended August 31, 2013 and his report indicates the scope of his audit and his opinion on the financial statements.

The Audit Committee of the Board of Directors meets periodically with the internal and external auditors and with management to review the scope of their audits and to assess reports on audit work performed. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.



John R. Elliott
Chief Operating Officer

Sarnia, Ontario
Canada

November 26, 2013

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Financial Statements

I have audited the accompanying financial statements of the Blue Water Bridge Authority, which comprise the statement of financial position as at 31 August 2013, and the statement of comprehensive income (loss), statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Blue Water Bridge Authority as at 31 August 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Blue Water Bridge Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Blue Water Bridge Authority Act* and the by-laws of the Blue Water Bridge Authority.

Maurice Laplante, CPA, CA
Assistant Auditor General
for the Auditor General of Canada

26 November 2013
Ottawa, Canada

BLUE WATER BRIDGE CANADA
STATEMENT OF FINANCIAL POSITION

As at August 31
(in Canadian dollars)

	2013	2012
	$	$
ASSETS		
Current		
Cash *[note 17]*	11,996,067	9,314,854
Investments *[note 4]*	1,219,993	—
Trade and other receivables *[note 17]*	674,686	421,955
Prepaid expenses	391,714	372,045
Total current assets	14,282,460	10,108,854
Investments *[note 4]*	—	1,167,613
Property, plant and equipment *[note 5]*	207,845,121	214,245,692
Intangible assets *[note 5]*	45,546	108,703
Investment properties *[note 5]*	15,430,710	16,055,570
Restricted funds *[note 6]*	6,373,662	5,818,022
	243,977,499	247,504,454
LIABILITIES AND EQUITY		
Current		
Trade and other payables *[note 17]*	2,094,790	4,020,119
Holdbacks payable	—	118,990
Deferred revenue *[note 7]*	2,393,767	1,971,245
Current portion of loans payable *[notes 9 & 10]*	404,068	390,206
Current portion of bonds payable *[notes 9 & 11]*	3,669,326	3,440,690
Total current liabilities	8,561,951	9,941,250
Employee benefits *[note 8]*	6,255,022	5,775,037
Non-current loans payable *[notes 9 & 10]*	13,800,492	14,204,560
Non-current bonds payable *[notes 9 & 11]*	77,023,780	80,693,106
	105,641,245	110,613,953
EQUITY		
Retained Earnings	138,336,254	136,890,501
	243,977,499	247,504,454

Commitments and contingencies and provisions *[notes 13 and 14]*

The accompanying notes form an integral part of these financial statements

On behalf of the Board of Directors

Larry Kinley, Director

Gary Atkinson, Director

BLUE WATER BRIDGE CANADA
STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Year ended August 31
(in Canadian dollars)

	2013	2012
	$	$
REVENUES		
Tolls and services	20,155,600	17,730,142
Facility rentals *[note 12]*	2,632,236	2,552,597
Currency exchange department	1,624,979	1,355,779
Interest and sundry	344,385	350,007
(Loss) gain on disposal of property, plant and equipment	(6,131)	13,629
	24,751,069	22,002,154
EXPENSES		
Depreciation of property, plant and equipment	7,229,414	7,584,773
Interest on long-term debt	5,842,444	6,109,463
Salaries, wages and benefits	5,920,442	6,024,810
General and administrative	2,094,357	1,781,773
Maintenance and other expenses	1,493,840	2,267,083
Depreciation of investment property	753,612	818,642
Depreciation of intangible assets	70,002	160,875
(Recovery from) Contribution to Michigan Dept. of Transportation	(98,795)	1,700,000
	23,305,316	26,447,419
Comprehensive income (loss) for the year	1,445,753	(4,445,265)

STATEMENT OF CHANGES IN EQUITY

Year ended August 31
(in Canadian dollars)

	2013	2012
	$	$
Retained earnings, beginning of year	136,890,501	141,335,766
Comprehensive income (loss) for the year	1,445,753	(4,445,265)
Retained earnings, end of year	138,336,254	136,890,501

The accompanying notes form an integral part of these financial statements

BLUE WATER BRIDGE CANADA
STATEMENT OF CASH FLOWS

Year ended August 31
(in Canadian dollars)

	2013	2012
	$	$
OPERATING ACTIVITIES		
Comprehensive income (loss) for the year	1,445,753	(4,445,265)
Add (deduct) items not involving cash		
Depreciation of property, plant and equipment	7,229,414	7,584,773
Depreciation of intangible assets	70,002	160,875
Depreciation of investment property	753,612	818,642
Amortization of bond agency fees	63,577	63,698
Change in employee benefits	479,985	438,667
Gain on disposal of property, plant and equipment	6,131	(13,629)
Change in accrued interest income	(52,380)	69,831
Foreign exchange (gain) loss	(139,626)	156,002
	9,856,468	4,833,594
Changes in non-cash working capital balances related to operations		
Trade and other receivables	(252,731)	1,825,904
Prepaid expenses	(19,669)	1,394
Trade and other payables	(1,925,329)	1,160,525
Holdbacks payable	(118,990)	(873,126)
Deferred Revenue	422,522	328,750
Funds received from federal government--infrastructure	—	1,683,871
Cash provided by operating activities	7,962,271	8,960,912
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	—	37,526
Purchase of property, plant and equipment	(834,974)	(4,596,139)
Purchase of investment property	(128,752)	—
Purchase of intangible assets	(6,845)	—
Borrowing costs capitalized as part of property, plant and equipment	—	(14,380)
Proceeds from disposal of investments	—	949,848
Proceeds from disposal of restricted assets	900,356	770,208
Purchase of restricted assets	(1,455,996)	(959,418)
Cash used in investing activities	(1,526,211)	(3,812,355)
FINANCING ACTIVITIES		
Proceeds from bank loan payable	—	14,815
Repayment of bank loan payable	(390,206)	(390,206)
Repayment of bonds payable	(3,504,267)	(3,290,000)
Cash used in financing activities	(3,894,473)	(3,665,391)
Foreign exchange loss on cash held in foreign currency	139,626	(156,002)
Net increase in cash during the year	2,681,213	1,327,164
Cash, beginning of year	9,314,854	7,987,690
Cash, end of year	11,996,067	9,314,854
Supplemental Disclosure of Cash Flow information		
Interest received	595,528	160,174
Interest paid	5,909,253	6,120,335

The accompanying notes form an integral part of these financial statements

BLUE WATER BRIDGE CANADA
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2013

1. Authority and Objective

Blue Water Bridge Canada (BWBC), legally known as the Blue Water Bridge Authority, is located at 1555 Venetian Boulevard, Point Edward, Ontario, Canada. BWBC was established by the *Blue Water Bridge Authority Act* (Canada) on May 21, 1964; as per Section 22, BWBC is not an agent of Her Majesty in right of Canada.

On April 26, 2002 BWBC became a Crown corporation, and as such, is listed under Schedule III, Part I of the *Financial Administration Act* and is not subject to income tax under the provisions of the *Income Tax Act*. In October 2007 the Minister of Transport confirmed that the new operating title of Blue Water Bridge Canada was approved and registered by the *Federal Identity Program*.

The Blue Water Bridge complex includes the Canadian portion of two international toll bridges connecting Point Edward, Ontario, Canada with Port Huron, Michigan, USA. Span 1 was completed in October, 1938 and Span 2 in July, 1997. Under the direction and guidance of the Minister of Transport, the mandate of BWBC is to operate, maintain and repair the Canadian halves of the two bridges, approaches and structures. The BWBC is considered a Government Business Enterprise for the reason that it has the ability to sustain its current operations and generate additional revenue as it deems necessary.

The *Blue Water Bridge Authority Act* and section 6 of the *Customs Act*, require BWBC to provide, equip and maintain, free of charge, adequate buildings, accommodations or other facilities for the proper detention and examination of imported goods or for the proper search of persons by customs and immigration officers.

2. Basis of Preparation

Statement of Compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein.

The financial statements were authorized for issue by the Board of Directors on November 26, 2013.

Basis of Measurement
These financial statements have been prepared on a historical cost basis as set out in the accounting policies below, except as permitted by IFRS and as otherwise indicated within these notes.

Functional and Presentation Currency
The financial statements are presented in Canadian dollars, which is BWBC's functional currency.

Use of Estimates and Judgments
The preparation of financial statements in accordance with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual amounts may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgments included in the financial statements are decisions made by Management, based on an analysis of relevant information available at the time the decision is made. Judgments relate to application of accounting policies, and decisions related to the measurement, recognition and disclosure of financial amounts.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included both below and in the statement notes relating to items subject to significant estimate uncertainty.

Property, Plant and Equipment, and Investment Properties
Property, plant and equipment and investment properties are depreciated over their useful lives. Useful lives are based on management's estimates of the periods of service provided by the assets as outlined in note 3(c). The appropriateness of useful lives of these assets is assessed annually. Changes to the useful life estimates would affect future depreciation expenses and the future carrying value of assets.

In order to establish useful lives for these assets, management uses its judgment to determine the componentization of property, plant and equipment and investments properties. A component is accounted for separately if it is significant in comparison to the value of the entire asset and if its useful life differs from the other components.

Long-lived Assets Valuation
BWBC performs impairment testing on its long-lived assets annually for intangible assets, and when circumstances indicate that there may be impairment, for other long-lived assets. Management judgment is involved in determining if there are circumstances indicating that testing for impairment is required, and in determining the grouping of assets to identify their Cash Generating Units ("CGU") for the purpose of impairment testing.

BWBC assesses impairment by comparing the recoverable amount of a long-lived asset, CGU or CGU group to its carrying value. The recoverable amount is defined as the higher of (i) value in use, or (ii) fair value less cost to sell. The determination of the recoverable amount involves Management judgment and estimation.

The values associated with intangible assets involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These estimates and assumptions could affect BWBC's future results if the current estimates of future performance and fair values change. These determinations will affect the amount of amortization expense on definite life intangible assets recognized in future periods.

Employee Benefit Plans
The cost of other post-employment benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees, mortality rates and expected health care costs. Discount rates used in actuarial calculations are based on long-term interest rates and can have a material effect on the amount of plan assets and liabilities. Management employs external experts to advise BWBC when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. To the extent that these estimates differ from those realized employee benefit liabilities and comprehensive income (loss) will be affected.

Leases
BWBC is party to many leasing arrangements, which requires management to determine whether the lease is a finance or operating lease by assessing if substantially all of the risks and rewards of ownership have passed to the lessee. A lease is classified as a finance lease whenever the terms of the lease transfer substantially all of the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

In management's judgment, all BWBC leases are considered to be operating leases. Rent payable under operating leases is recognized in income on a straight-line basis over the term of the respective lease.

3. Significant Accounting Policies

a) Financial Instruments

Financial assets or liabilities are measured at fair value on initial recognition, including transaction costs. The measurement of financial instruments in subsequent periods depends on their classification. The classification of BWBC's financial instruments is presented in the following table:

Category	*Financial Instruments*
Financial assets held-to-maturity	Investments
	Restricted funds

Loans and receivables	Trade and other receivables
Financial liabilities	Trade and other payables Holdbacks payable Bank loan payable Bonds payable

Financial assets held-to-maturity are measured at amortized cost. Interest is recognized using the effective interest rate method and recognized in the Statement of Comprehensive Income (Loss). Investments are classified as non-current assets, except for those with maturities that are less than 12 months from the end of the reporting period, which are classified as current assets. Restricted funds are classified as non-current in accordance with the timing of their intended use.

Assets classified as loans and receivables are recorded at amortized cost using the effective interest rate method.

Other financial liabilities are measured at amortized cost using the effective interest method.

b) *Impairment of Assets*

Financial Assets

Assessment is made at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For financial assets measured at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the Statement of Comprehensive Income (Loss).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the Statement of Comprehensive Income (Loss).

Non-Financial Assets

Assets that are subject to depreciation are reviewed at each reporting date to determine whether there is an indication of impairment. If any such indication exists, the entity shall estimate the recoverable amount of the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped into the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

c) *Property, Plant, Equipment, Intangible Assets and Investment Properties*

Property, plant and equipment, intangible assets, and investment properties are presented on the Statement of Financial Position as cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition or the construction of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to BWBC and the cost of the item can be measured reliably. Repairs and maintenance are charged to the Statement of Comprehensive Income (Loss) during the financial period in which they occurred.

Land is not depreciated. Depreciation on other assets is calculated using the methods and estimated useful lives below. Depreciation rates based on the estimated useful life of an asset are as follows:

Bridges and Truck Ramp	Straight line 50-75 years
Buildings	Straight line 5-70 years 5%-20% diminishing balance basis
Equipment	Straight line 5-10 years 10%-20% diminishing balance basis
Property improvements	10%-20% diminishing balance basis
Vehicles and construction equipment	20% diminishing balance basis
Intangible assets	Straight line 5 years
Investment properties	5-70 years straight-line 5%-20% diminishing balance basis

Residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period, or more often if events or circumstances dictate.

i) Property, Plant, and Equipment

Buildings

Ten buildings and all of the old booths that were not built in BWBC's latest phase of the master capital plan have been identified for demolition in accordance with the master capital plan. Depreciation has been accelerated to depreciate the remaining net book value over the period of time through to the planned date of demolition.

Residential Buildings

Included in buildings are residential properties held by BWBC for future land development. No depreciation on residential buildings is recorded. The total acquisition cost of the residential buildings will be transferred to the land account when these buildings are demolished.

Construction in Process

Construction in process is not depreciated. When projects are significantly completed and put in use, the costs are transferred to the appropriate asset account and depreciation is initiated.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. BWBC's definition of a qualifying asset is any asset that costs over $1 million and takes over a year to be substantially ready for intended use or sale.

When general borrowings are incurred for the development of a qualifying asset, the capitalization rate applied to the resulting figure is the weighted average of the borrowing rates incurred.

ii) Intangible Assets

The costs of purchases of computer software that meet the definition of intangible assets and that are separable from an item of related hardware are capitalized separately.

iii) Investment Properties

Investment properties are properties held to earn rental income. Investment properties are leased to tenants such as travel and tourism, commercial customs brokers, a private coffee shop, and a duty free shop.

d) ***Revenue Recognition***

Tolls and services revenues are recognized and recorded at the time the tolls are collected when the vehicles pass through the toll lanes. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

Facility rentals revenues are recognized and recorded in the periods in which they are earned. These revenues include lease payments received from tenants such as commercial custom brokers, private coffee shops, and a duty free store.

Currency exchange department revenues are recorded and recognized at the time the currency exchange transaction is completed. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

Interest is recognized using the effective interest rate method and recorded in the period in which it is earned. The primary component of revenue in this category is bond interest.

Deferred revenues represent tolls paid in advance by passenger vehicle users and commercial trucking companies. Revenue is recognized at the time the vehicles pass through the toll lanes. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

e) ***Foreign Currency Translation***

Foreign currency accounts are translated to Canadian dollars as follows:
At the transaction date, each asset, liability, revenue or expense is translated through the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in the Statement of Comprehensive Income (Loss) in the current period.

f) ***Employee Benefits***

BWBC provides post-employment benefits including health care, dental care, employee assistance, and life insurance to eligible employees and their dependents upon meeting certain requirements. The obligation and the cost of these benefits are determined on an actuarial basis using the projected unit credit method prorated on service and management's best estimate assumptions. The discount rate used to determine the accrued benefit obligation is based on market rates for non-current high quality bonds. The measurement date is August 31.

The net cost consists of the actuarially determined benefits for the current year's service, imputed interest on projected obligations and the amortization of actuarial gains or losses over the expected average remaining service life. Actuarial gains or losses are amortized over the employees' average remaining service life (14 years; 2012 - 15 years) only if the net actuarial gain or loss at the beginning of the year is in excess of 10% of the accrued benefit obligation at that date. These benefits are not pre-funded, resulting in a deficit equal to the accrued liability benefit obligation.

Past service costs associated with post-employment benefits are recognized as an expense over the average period until the benefits become vested. BWBC also provides defined contribution pension benefits to its employees. BWBC's contributions reflect the full benefit cost of the employer and they are charged to operations during the year in which the services are rendered.

g) ***Leases***

As lessor, when assets are leased out under an operating lease, the asset is included in the statement of financial position within property, plant and equipment and investment properties.

h) ***Federal, Provincial and Municipal Government Assistance***

Federal, provincial and municipal government assistance is recorded as a reduction of the cost of the asset acquired when there is a reasonable assurance that the requirements for the approved grants are met.

i) ***Contingencies and Provisions***

In the normal course of its operations, BWBC becomes involved in various legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the

future event is probable, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in BWBC's financial statements.

j) Accounting Standards Issued but not yet Effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by BWBC. Management anticipates that all of the pronouncements will be adopted in the BWBC's accounting policies for the first period beginning after the effective date of the pronouncement. Certain other new standards and interpretations have been issued but are not expected to have a material impact on BWBC's financial statements. Information on new standards, amendments and interpretations not previously discussed that are expected to be relevant to BWBC's financial statements is provided below.

IFRS 9 Financial Instruments

IFRS 9 was issued to deal with classification and measurement requirements for financial assets and financial liabilities. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2015. BWBC is still assessing the impact of the adoption of this standard on its financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. It is effective for years beginning on/after January 1, 2013. BWBC is still assessing the impact of the adoption of this standard on its financial statements.

IAS 1 Presentation of Financial Statements

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013, the IASB amended this standard to clarify the requirements for providing comparative information in the financial statements (for example, when to include a third column on the statement of financial position) along with additional disclosures in the statement of other comprehensive income (separate amounts that will be reclassified to profit and loss and those that will not). BWBC is still assessing the impact of the adoption of this standard on its financial statements.

IAS 19 Employee Benefits

In June 2011, the IASB amended IAS 19 effective for fiscal years beginning on or after January 1, 2013. Amongst other changes, the amendments require entities to recognize actuarial gains or losses and past service costs directly in other comprehensive income and profit and loss, respectively, in the period in which they are incurred. Furthermore, the amendments to IAS 19 enhance the disclosure requirements for defined benefit plans, providing additional information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. It is estimated that retained earnings as at September 1, 2011 will decrease by $112,442 as a result of including unamortized net actuarial losses. An additional amount of $330,176, relating to unamortized past service costs, will be recognized in profit and loss and $150,839 of actuarial gains will recognized in other comprehensive income for the year ending August 31, 2012. At August 31 2013, an additional amount of $34,756, relating to unamortized past service costs, will also be reversed in profit and loss and the actuarial gains of $997,354 will be recognized in other comprehensive income.

4. Investments

Investments are held in the Major Maintenance Fund and are secure, low-risk government bonds. This fund holds unrestricted investments for capital expenditures and major maintenance. The fair value of the investments was determined using quoted market prices.

	2013 $	2012 $
Carrying Amount	**1,219,993**	1,167,613
Fair Market Value	**1,247,241**	1,223,440

5. Property, Plant, Equipment, Intangible Assets and Investment Property

a) Property, Plant and Equipment

August 31, 2013	Land	Bridges & Truck Ramp	Buildings	Equipment	Construction in process	Property improvements	Vehicles and construction equipment	Total
Cost	$	$	$	$	$	$	$	$
Balance, beginning of year	8,105,614	136,091,230	69,203,050	6,960,687	5,198,934	12,919,632	1,677,486	240,156,633
Additions	—	221,379	11,577	369,138	111,052	15,153	106,675	834,974
Disposals	—	—	—	(100,590)	—	—	—	(100,590)
Transfers	—	2,528,425	535,175	1,057,335	(4,120,935)	—	—	—
Balance, end of year	8,105,614	138,841,034	69,749,802	8,286,570	1,189,051	12,934,785	1,784,161	240,891,017
Accumulated depreciation								
Balance, beginning of year	—	5,644,553	5,743,869	4,926,551	—	8,227,279	1,368,689	25,910,941
Depreciation expense	—	2,847,601	2,956,626	427,119	—	934,086	63,982	7,229,414
Disposals	—	—	—	(94,459)	—	—	—	(94,459)
Balance, end of year	—	8,492,154	8,700,495	5,259,211	—	9,161,365	1,432,671	33,045,896
Net book value, end of year	8,105,614	130,348,880	61,049,307	3,027,359	1,189,051	3,773,420	351,490	207,845,121

August 31, 2012	Land	Bridges & Truck Ramp	Buildings	Equipment	Construction in process	Property improvements	Vehicles and construction equipment	Total
Cost	$	$	$	$	$	$	$	$
Balance, beginning of year	7,963,429	136,091,230	68,055,562	6,794,728	3,917,704	12,876,129	1,766,069	237,464,851
Additions	142,185	—	1,166,399	150,843	1,281,230	43,503	142,488	2,926,648
Disposals	—	—	—	(3,795)	—	—	(231,071)	(234,866)
Transfers	—	—	(18,911)	18,911	—	—	—	—
Balance, end of year	8,105,614	136,091,230	69,203,050	6,960,687	5,198,934	12,919,632	1,677,486	240,156,633
Accumulated depreciation								
Balance, beginning of year	—	2,823,509	2,511,158	4,605,973	—	7,072,303	1,524,196	18,537,139
Depreciation expense	—	2,821,044	3,232,711	320,578	—	1,154,976	55,464	7,584,773
Disposals	—	—	—	—	—	—	(210,971)	(210,971)
Balance, end of year	—	5,644,553	5,743,869	4,926,551	—	8,227,279	1,368,689	25,910,941
Net book value, end of year	8,105,614	130,446,677	63,459,181	2,034,136	5,198,934	4,692,353	308,797	214,245,692

b) Intangible Assets and Investment Properties

	2013		2012	
	Intangible Assets	**Investment Properties**	Intangible Assets	Investment Properties
	$	$	$	$
Cost				
Balance, beginning of year	**990,479**	**17,742,231**	990,479	17,742,231
Additions	**6,845**	**128,752**	—	—
Disposals	—	—	—	—
Transfers	—	—	—	—
Balance, end of year	**997,324**	**17,870,983**	990,479	17,742,231
Accumulated depreciation				
Balance, beginning of year	**881,776**	**1,686,661**	720,901	868,019
Depreciation expense	**70,002**	**753,612**	160,875	818,642
Disposals	—	—	—	—
Balance, end of year	**951,778**	**2,440,273**	881,776	1,686,661
Net book value, end of year	**45,546**	**15,430,710**	108,703	16,055,570

Investment properties comprise commercial properties that are leased to third parties. Investment properties are stated at historical cost less accumulated depreciation and impairment losses, if any.

Fair value of the investment property has been determined based on a valuation performed by METRIX Realty Group, as at September 1, 2010 while using the Consumer Price Index as a base for the Fair Market Value increase. The value of the property has not been determined on transactions observable in the market because of the nature of the property and the lack of comparable data. The total fair value of the investment property has been determined to be $18,839,337 (August 31, 2012 - $18,533,537).

Rental income for 2013 amounts to $2,632,236 (2012 - $2,552,597) included within 'facility rentals'. Contingent rent of $1,421,101 (2012 - $1,328,646) was also recognized. Direct operating expenses of $80,836 (2012 - $136,401) was reported within general and administrative and maintenance expenses. No investment properties were vacant at August 31, 2013, or August 31, 2012.

6. Restricted Funds

Restricted funds consist of certain funds, the use of which is directed by the Master Trust Indenture (the "Indenture") offering document and which consist of the Debt Service Reserve Fund and the Operating and Maintenance Contingency Fund. These funds are invested in cash or eligible investments with 0 to 3 years to maturity as follows:

	2013	2012
	$	$
Debt Service Reserve Fund (a)		
Cash	22	17
Provincial government bonds	1,236,592	3,531,171
Other investments	2,399,116	—
	3,635,730	3,531,188
Operating and Maintenance Contingency Fund (b)		
Cash		6
Provincial government bonds	344,964	329,432
Other investments	2,392,968	1,957,396
	2,737,932	2,286,834
Total Restricted Funds (a+b)	6,373,662	5,818,022
Fair Market Value	6,393,985	5,895,213

At maturity of the bonds this account will no longer be required.

a) ***Debt Service Reserve Fund***
On the issuance of the bonds, BWBC established the Debt Service Reserve Fund in the amount of $4.5 million. In accordance with the terms of the Indenture, the bond covenant requires that the Debt Service Reserve Fund be maintained at the level according to the following:

Gross Debt Service Coverage Ratio	Debt Service Reserve Fund amount
> 3.00	No amount
> 2.00 and < 3.00	25% of the Debt Service Amount
< 2.00	50% of the Debt Service Amount

Gross Debt Service Coverage Ratio means, on any date, the sum of free cash flow for a twelve month period and the revenue account balance (cash plus all investments plus credit facilities) divided by the sum of the net interest amount and the total principal reduction amount for the twelve month period.

Debt Service Amount means, on any date, the sum of the projected net interest amount and the projected total principal reduction amount for the twelve month period commencing on the first day of the month.

As at August 31, 2013, the Gross Debt Service Coverage Ratio is 4.75 (August 31, 2012 – 3.94).

In anticipation of lower coverage ratios in the future as a result of the drawdown in investments to finance capital projects, a balance will be maintained at a level equivalent to that required as if the Gross Debt Service Coverage Ratio was greater

than 2.00 but less than 3.00. This would require a minimum reserve fund of $2,221,545. Thus, a balance of $3.6 million will be voluntarily maintained.

b) ***Operating and Maintenance Contingency Fund***
On the issuance of the bonds, BWBC established the Operating and Maintenance Contingency Fund in the amount of $2.0 million. In accordance with the terms of the Indenture, the fund must be at least equal to twenty-five percent (25%) of the Operating and Maintenance expenses incurred by BWBC. Operating and Maintenance expenses do not include amortization or the interest on any borrowings. As at August 31, 2013, the required minimum balance is established at $2,018,089 (August 31, 2012 - $2,663,505).

7. Deferred Revenue

Deferred revenue represents tolls paid in advance by both individuals and commercial customers and prepaid facility rentals. Balances are drawn down with each use of the bridge.

	2013 $	2012 $
Passenger Vehicles--Tokens	**1,107,597**	926,496
Commercial Vehicles	**1,159,587**	1,044,749
Prepaid facility rentals	**126,583**	—
	2,393,767	1,971,245

8. Employee Benefits

a) ***Pension Benefit***
BWBC has contracted an outside life insurance firm to operate and administer an employee pension plan. Employees of BWBC may voluntarily join the pension plan, subject to eligibility requirements. The pension plan, which is a defined-contribution pension plan, is funded on a money-purchase basis with members contributing 6.5% of their annual earnings. In accordance with the plan, BWBC is required to contribute an amount equal to the member's required contribution. During the year, BWBC's pension contributions amounted to $209,119 (2012 - $208,955).

b) ***Special Termination Benefits***
There were no special termination benefits offered in fiscal 2013 or 2012. As at August 31, 2013, $36,127 was remaining as a current special termination benefit liability. At August 31, 2012, the special termination benefit payable was $180,634. Of that amount, $144,508 was recognized as a current liability and $36,127 was recognized as non-current.

c) **Other Benefits**
Other than the pension plan, BWBC provides post-employment benefits to its eligible employees through health, dental, life insurance and an employee assistance program. Benefit costs related to current service are charged to income as services are rendered. The last actuarial valuation was performed as at August 31, 2013. BWBC intends to have its next valuation performed as at August 31, 2014.

The following table sets forth the status of the post-employment non-pension related benefit plan:

	2013	2012
	$	$
Defined benefit obligation		
Balance, beginning of year	**6,030,689**	5,159,797
Current service cost	**316,227**	229,121
Interest cost	**258,198**	259,884
Amendments	**—**	630,379
Actuarial (gain) loss	**(997,354)**	(150,839)
Benefits paid	**(93,069)**	(97,653)
Balance, end of year	**5,514,691**	6,030,689
Special termination benefits		36,127
Unamortized past service costs	**(295,420)**	(330,176)
Unamortized net actuarial gain (loss)	**1,035,751**	38,397
Accrued benefit liability	**6,255,022**	5,775,037

In 2012, the plan was amended to include benefits for part-time employees. The effect of the amendment was an increase in the defined benefit obligation of $630,379 ($nil in 2013). Included in actuarial (gain) loss is a gain of $552,800 ($2,400 in 2012) relating to the experience adjustment on the defined benefit obligation.

The following table reconciles the unamortized net actuarial (gain) loss at the end of the year:

	2013	2012
	$	$
Unamortized net actuarial loss, beginning of year	**(38,397)**	112,442
Actuarial (gain) loss arising during the year	**(997,354)**	(150,839)
Unamortized net actuarial (gain) loss, end of year	**(1,035,751)**	(38,397)

Post-employment expense recognized in income during the year is as follows:

	2013	2012
	$	$
Current service costs	**316,227**	229,121
Interest cost	**258,198**	259,884
Amortization of past service costs	**34,756**	300,203
Net post-employment expense recognized in year	**609,181**	789,208

The significant actuarial assumptions adopted in measuring BWBC's accrued benefit obligations and net benefit plan expense are as follows:

	2013	2012
Weighted average assumptions as at August 31:		
Discount Rate, accrued benefit obligation	**4.80%**	4.10%
Discount Rate, benefit cost	**4.10%**	4.60%
Estimated per capita claims costs escalation rates:		
General inflation	**2.50%**	2.50%
Dental and vision care	**4.50%**	4.50%
Employee assistance program	**2.50%**	2.50%

The assumed health care inflation rate as of August 31, 2013 is 8.0% per annum decreasing linearly to 4.50% per annum in the 2022/2023 fiscal year, (August 31, 2012 - 8%).

Expected benefits to be paid regarding the post-employment benefit plans for the year end August 31, 2014 are $105,887.

Sensitivity Analysis
BWBC has reviewed the assumptions used in the actuarial calculations and has identified the following assumptions as those that could result in a significant impact on the defined benefit obligation:

Assumed health care cost trend rates would have a significant effect on the amounts reported for long-term post-employment benefit plans. An increase of one percent would result in increased total service costs of $104,436 ($125,740 in 2012) and an increase in the total post-employment benefit liability of $1,061,228 ($1,290,386 in 2012).

9. Credit Facility

Pursuant to the *Blue Water Bridge Authority Act*, the maximum amount that BWBC can borrow is $125 million with Government approval. Pursuant to Section 13 of the *Blue Water Bridge Authority Act*, the Government of Canada is not liable for any borrowings by BWBC.

On July 9, 2002 BWBC issued at a face value of $110 million, 6.41% Revenue Bonds, payable semi-annually, Series 2002-1, due July 9, 2027 (note 11).

In addition to the bonds payable, BWBC maintains two separate credit facilities with a Canadian chartered bank in the total amount of $30 million (2012 - $30 million). The first facility is a $15 million line of credit to be used in the event of temporary cash deficiencies resulting from the timing of capital expenditure payments. As per the Minister of Finance's approval of the borrowing plan, this line of credit is not to be used to cover cash shortages resulting from operating losses. Nothing has been drawn on this facility at August 31, 2013 ($0 at August 31, 2012).

In addition, due to the requirement to finance the 2009 federal infrastructure program coupled with the decline in traffic volumes at that time, BWBC was granted permission by the Minister of Finance to put into place a second credit facility for $15 million on a fixed rate, non-current basis with periodic payments of interest and principal not to exceed a maturity of 25 years. BWBC has drawn upon this facility in four tranches (*note 10*).

10. Loans Payable

	2013		2012	
	Fair Value	Carrying Cost	Fair Value	Carrying Cost
	$	$	$	$
$15 million term facility		14,204,560		14,594,766
$3 millon maturing July 27, 2014 @ 2.83%	3,825,899		4,007,324	
$4 million maturing July 27, 2016 @3.37%	5,411,009		5,667,496	
$4 million maturing July 27, 2018 @3.81%	5,671,075		5,939,828	
$4 million maturing July 27, 2021 @4.42% payable monthly	6,042,691		6,328,956	
	20,950,674	14,204,560	21,943,604	14,594,766
Less current portion	404,068	404,068	390,206	390,206
	20,546,606	13,800,492	21,553,398	14,204,560

No security is pledged against the term facility and there are no specific restrictions or covenants. Principal and interest payments for the term facility for the next five years and thereafter are as follows:

	Principal	Interest	Total
	$	$	$
2014	404,068	513,480	917,548
2015	418,954	498,594	917,548
2016	433,946	483,602	917,548
2017	450,861	466,687	917,548
2018	467,071	450,477	917,548
Thereafter	12,029,662	4,410,518	16,440,180
	14,204,562	6,823,358	21,027,920

11. Bonds Payable

	2013		2012	
	Fair Value	Carrying Cost	Fair Value	Carrying Cost
	$	$	$	$
Series 2002-1 bonds maturing July 9, 2027 payable semi-annually on January 9 and July 9	94,906,897	80,693,106	104,281,408	84,133,796
	94,906,897	80,693,106	104,281,408	84,133,796
Less current portion	3,669,326	3,669,326	3,440,690	3,440,690
	91,237,571	77,023,780	100,840,718	80,693,106

BWBC maintains a covenant with the Trustee and Bondholders that so long as there is any amount payable under the Master Trust Indenture, or any Bonds outstanding or any obligations under the indenture:

i) The principal and interest will be duly paid on the due dates.

ii) Insurance will be maintained in such types and amounts in accordance with sound business practices and standards in the industry.

iii) BWBC shall maintain its corporate existence pursuant to the *Blue Water Bridge Authority Act* and maintain its existence as a parent Crown Corporation under the *Financial Administration Act* subject to its right to reorganize, merge or amalgamate in accordance with the Master Trust Indenture.

iv) Except for borrowings arising as a result of movements in the termination values of swap agreements and any purchase money obligations not exceeding $2 million in the aggregate at any time and BWBC shall not create, incur, assume or otherwise become liable for any additional indebtedness unless it is pursuant to a supplemental Indenture. As at August 31, 2013 BWBC has no active swap agreement.

v) The aggregate of all borrowings, subordinated debt and purchase money obligations does not exceed any limitations on the amount of borrowings outstanding imposed upon BWBC pursuant to the *Blue Water Bridge Authority Act*.

vi) Toll Rate Covenant – BWBC will take all lawful measures to fix and establish toll rates and other charges so that:

vii) The Gross Debt Service Coverage Ratio will be equal to or greater than 1.25 with respect to each Fiscal Year and that the projected Debt Service Ratio is equal to or greater than 1.00 with respect to each Fiscal Year. If the ratios do not meet these requirements, BWBC shall take all steps permitted under the *Blue Water Bridge Authority Act* to increase toll rates as may be necessary to achieve such ratios in the next succeeding Fiscal Year. As at August 31, 2013, the Gross Debt Service Coverage Ratio (as defined in note 8) is 4.75 (2012 - 3.94) and the Debt Service Ratio is 1.75 (2012 - 1.20).

A discounted cash flow method, using a factored rate equal to the prevailing market rate of interest for bonds having similar terms and conditions, was used to determine the fair value of the bonds. The factored price used to determine the fair value of the bonds is based on the market price of the bonds multiplied by the percentage of remaining principal to the beginning principal of the bonds. The factored price at August 31, 2013 was 85.526% (August 31, 2012– 94.002%).

Financing costs of $1,298,699 related to the issuance of the bonds have been included in non-current loans payable. As interest expense and financing costs are recognized they increase the recorded carrying value of the related non-current loans payable until such time as the liability recorded is equal to the bonds' face value of $110 million, calculated based on the effective interest rate calculation.

Principal and interest payments for the bonds for the next five years and thereafter are as follows:

	Principal	Interest	Total
	$	$	$
2014	3,669,326	5,216,851	8,886,177
2015	3,913,155	4,973,022	8,886,177
2016	4,173,186	4,712,991	8,886,177
2017	4,450,496	4,435,681	8,886,177
2018	4,746,234	4,139,947	8,886,177
Thereafter	59,740,709	20,234,888	79,975,597
	80,693,106	43,713,380	124,406,482

12. Facility Rentals

BWBC has entered into contracts with thirteen customs brokers and one logistics company who rent space in the Blue Water Bridge Corporate Centre. BWBC also entered into a long-term operating lease with The Blue Water Bridge Duty Free Shop Inc. BWBC provides the building while the Duty Free Shop Inc. operates the commercial facility. BWBC receives a fixed rent per month and contingent revenues based on a percentage of sales. The total amount of contingent rent recognized during the current fiscal year was $1,421,101 (August 31, 2012 - $1,328,646).

Future minimum rentals receivable under non-cancellable operating leases as at August 31 are as follows:

	2013 $	2012 $
Within one year	1,168,792	1,180,466
After one year, but not more than five years	2,116,167	2,717,221
More than five years	2,332,889	—
	5,617,848	3,897,687

13. Commitments

Special projects have awarded contracts as at August 31, 2013 for the purchase of Property, Plant and Equipment with an outstanding commitment of $63,757 ($144,089 at August 31, 2012).

Maintenance and other awarded contracts have an outstanding commitment of $1,229,913 at August 31, 2013 ($1,145,421 at August 31, 2012).

Total commitments are as follows:

	2013 $	2012 $
Within one year	529,308	442,934
After one year but not more than five years	764,362	846,576
More than five years	—	—
	1,293,670	1,289,510

14. Contingencies and Provisions

In the normal course of its operations, BWBC becomes involved in various legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is probable, and a reasonable estimate of the obligation can be made, an estimated liability is accrued and an expense recorded in BWBC's financial statements. There are no outstanding legal actions against BWBC at year end (August 31, 2012 – none).

15. Restructuring

In 2013, at the direction of the Board of Directors, BWBC implemented a restructuring plan to align its cost and operating structure with the current economic and market conditions. All payments, under the restructuring have been made.

16. Capital Management

BWBC defines its capital structure as its retained earnings. BWBC is governed by the *Financial Administration Act* and is not subject to any external capital restriction.

BWBC is not authorized to modify its financial structure without pre-approval by the Government. BWBC must obtain authorization from the Government to negotiate any borrowings. BWBC manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended August 31, 2013 and August 31, 2012.

17. Financial Instruments

a) *Financial Risk Management*

i) *Credit risk*

Credit risk is the risk of financial loss to BWBC associated with the counterparty's failure to fulfill its financial obligations and arises principally from BWBC's trade and other receivables and its investments in money market funds. BWBC is subject to credit risk on cash, investments and trade and other receivables. BWBC manages this risk by closely monitoring the issuance and collection of credit to commercial clients. Generally, the carrying amount reported on BWBC's statement of financial position for its financial assets exposed to credit risk represents the maximum amount exposed to credit risk. The credit risk is not significant for BWBC.

The credit risk associated with cash and current instruments is reduced substantially by ensuring that cash surpluses are invested in highly liquid investments. It is BWBC's policy to invest in low-risk instruments owned by the Government of Canada, a Canadian province or one of five major Canadian chartered banks. These financial assets are invested in guaranteed investment certificates or government bonds. Management believes the risk of loss is remote.

The credit risk associated with trade and other receivables is minimized since a large portion of the amount is owed by provincial or federal government agencies, the state of Michigan and our commercial tenants.

BWBC is subject to credit risk on the value of its trade and other receivables $674,686 at August 31, 2013 ($421,955 at August 31, 2012). BWBC is also subject to credit risk in the value of its investments and restricted funds $7,593,655 at August 31, 2013 ($6,985,635 at August 31, 2012). BWBC has determined that the risk is not significant.

The maturity analysis for trade and other receivables as at August 31, 2013 is as follows:

	Total	Less than 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year
	$	$	$	$	$
Rents Receivable	243,840	243,840	—	—	—
MDOT Receivable	141,672	141,672	—	—	—
Duty Free Receivable (non-rent)	168,085	115,458	—	52,627	—
Other	125,228	85,978	9,890	27,794	1,566
Allowance for Doubtful Accounts	(4,139)	(4,139)	—	—	—
	674,686	582,809	9,890	80,421	1,566

The maturity analysis for trade and other receivables as at August 31, 2012 is as follows:

	Total	Less than 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year
	$	$	$	$	$
HST Recoverable	105,613	65,780	—	—	39,833
Rents Receivable	248,081	235,975	—	—	12,106
Commercial Tolls Receivable	8,334	4,760	—	—	3,574
Other	59,927	46,554	7,522	113	5,738
	421,955	**353,069**	**7,522**	**113**	**61,251**

ii) Liquidity/Solvency Risk

Liquidity/Solvency risk is the risk that funds will not be available to BWBC to honour its cash obligations as they arise.

BWBC liabilities as at August 31, 2013 are:

	Total	Less than 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year
	$	$	$	$	$
Trade payables	833,018	798,809	—	—	34,209
Accrued charges	74,220	10,912	—	—	63,308
Accrued interest on bonds	741,393	741,393	—	—	—
Accrued salaries and benefits	446,159	446,159	—	—	—
Holdbacks payable	—	—	—	—	—
Long-term debt payable	94,897,666	98,585	1,904,651	2,070,158	90,824,272
	96,992,456	**2,095,858**	**1,904,651**	**2,070,158**	**90,921,789**

BWBC liabilities as at August 31, 2012 are:

	Total	Less than 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year
	$	$	$	$	$
Trade payables	1,063,208	1,063,208	—	—	—
Accrued charges	1,834,292	1,834,292	—	—	—
Accrued interest on bonds	808,201	808,201	—	—	—
Accrued salaries and benefits	314,418	314,418	—	—	—
Holdbacks payable	118,990	118,990	—	—	—
Long-term debt payable	98,728,562	95,383	1,788,691	1,946,822	94,897,666
	102,867,671	**4,234,492**	**1,788,691**	**1,946,822**	**94,897,666**

Additional disclosure about BWBC's credit facility, loans payable and bonds payable can be found in notes 9, 10 and 11 respectively. It is possible that future financial results and required federal infrastructure priorities may impinge or strain our ability to satisfy existing bond covenants and require the utilization of the existing line of credit or the utilization of additional non-current loans payable. However, BWBC manages this risk by maintaining detailed cash forecasts, as well as long-term operating and strategic plans. The management of liquidity requires a constant monitoring of expected cash inflows and outflows which is achieved through a forecast of BWBC's liquidity position, to ensure adequacy and efficient use of cash resources. In the event that future cash deficiencies are identified, BWBC has the authority through the *Blue*

Water Bridge Authority Act (Canada) to fix and charge tolls based on a pre-set formula; negotiate with a chartered bank, and; coordinate financial remediation solutions with Transport Canada.

iii) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument of its issuer, or factors affecting all similar financial instruments traded in the market.

a) Interest rate risk

BWBC is not subject to interest rate risk and fair value risk as all investments are held to maturity. The interest rate risk and fair value risk are minimal for the bonds payable as BWBC does not redeem the bonds prior to maturity.

b) Foreign exchange risk

A variation in exchange rates from year-to-year would significantly affect toll revenue income. The weakening of the Canadian dollar over the duration of fiscal year 2013 produced an increase in toll revenue income of $139,626 (2012 - $156,002 decrease in income). BWBC's bank accounts are held at one Canadian chartered bank. Cash (including on hand) includes US $3,641,519 (2012 - US $5,807,398.) which has been translated to its Canadian equivalent of $3,842,895 (2012 - $5,727,837). For BWBC's USD cash holdings a one per cent change in exchange rate would produce $36,415 gain or loss (2012 - $58,074). The method used to determine the foreign exchange risk is to take BWBC's foreign holdings and calculate a one per cent variation.

c) Fair Value

The carrying amounts of BWBC's cash, trade and other receivables, trade and other payables, holdbacks payable and other liabilities approximate their fair values due to their short term maturity.

18. Related Party Transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business on trade terms similar to those applied to other individuals and enterprises and these transactions are recorded at fair value. Other than disclosed elsewhere in these Financial Statements, related party transactions are not significant.

In accordance with the terms of the *Blue Water Bridge Authority Act*, BWBC is required to provide space at no charge to both the Canada Border Services Agency and the Canadian Food Inspection Agency.

The remuneration of key executives is determined by the Board of Directors having regard to the performance of individuals and market trends. The compensation of the key executives of the Corporation, represented by the Board of Directors and the Executive Management team, is as follows:

	2013 $	2012 $
Short-term employee benefits	429,764	535,265
Post-employment benefits	40,347	61,537
Other long-term benefits	7,603	11,049
Termination benefits	28,344	—
	506,058	607,851

19. Subsequent Events

Subsequent to year end, the Board of Directors re-evaluated the Master Capital Plan strategy and determined that the implementation of the plan would extend to 2020 and beyond. While not complete, the Master Capital Plan will address the

useful lives of existing buildings. There is the potential that the useful lives as currently estimated will be extended, resulting in a possible change to building depreciation. Management will evaluate the effect of this potential change once the Master Capital Plan has been completed in fiscal 2014.

In addition, on October 22, 2013, the Government of Canada announced a restructuring of its federal bridges as part of its tabling of the government's budget implementation bill, C-4, *Economic Action Plan Act, No. 2*. Through the restructuring, BWBC will be amalgamated with the Federal Bridge Corporation Limited. It is anticipated that the amalgamation will be completed by the end of 2014. BWBC will be assessing the impact of this change over the coming months.

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BLUE WATER BRIDGE

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